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MID-TERM
REVIEW AND APPRAISAL OF PROGRESS IN THE IMPLEMENTATION OF THE INTERNATIONAL DEVELOPMENT STRATEGY FOR THE SECOND DEVELOPMENT DECADE IN COUNTRIES OF WESTERN ASIA

Overall Growth Performance

75-180

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INTRODUCTION

The International Development Strategy - the basic instrument for the action programme of the Second United Nations Development Decade - requires that appropriate arrangements be made "to keep under systematic scrutiny the progress towards achieving the goals and objectives of the Decade - to identify shortfalls in their achievement and the factors which account for them, and to recommend positive measures, including new goals and policies as needed".1/ For this purpose, the General Assembly resolved that "review and appraisal at all levels should be informed by the common purpose of assessing the manner in which the operation of the International Development Strategy has contributed to economic growth and social progress".2/ Thus, the review and appraisal exercise is intended to make the strategy a dynamic and flexible instrument to achieve the goals and objectives of the Decade and to enable the international community to bring about agreement and action in the interest of social and economic progress of developing countries in the light of past performance and emerging situations.

The strategy distinguishes four levels of review and appraisal: national (responsibility of governments), regional (responsibility of the regional commissions), sectoral or functional (responsibility of UNCTAD, UNIDO and the Specialized Agencies of the United Nations), and global or overall (responsibility of the General Assembly, through the Economic and Social Council). The overall review and appraisal is to be undertaken on a biennial basis, the second being in the nature of a mid-term review.

1/ "International Development Strategy for the Second United Nations Development Decade", General Assembly resolution No. 2626(XXV), para. 79.

2/ General Assembly resolution No. 2801(XXVI).

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It should be noted, however, that developments in international economic relations since the formulation of the Strategy have enhanced the significance of the mid-term review considerably beyond what could have been anticipated then.

While closely interrelated, each of the four different levels of appraisal is intended to serve a basically distinct function. Thus, "regional appraisals are intended to assist Governments in arriving at appropriate policy decisions in a regional framework where similarities of conditions and aspirations make it possible to pursue common approaches and, in particular, to promote regional or subregional economic co-operation. Sectoral appraisals are intended to provide from time to time a world-wide analysis of the emerging situation and problems in a specific sector.... The ... overall appraisal is designed to assist Governments at the highest levels in the United Nations System... in examining the unfolding development trends throughout the world in their entirety and in shaping the course of action required by changing circumstances." 3/

The country reviews, however, occupy a central position with respect to the whole exercise since they are the ultimate source for the basic information needed to carry out appraisals at all other levels.

Review and appraisal of performance at the country level presupposes the establishment of a yardstick, or frame of reference, against which progress could be assessed. One such yardstick is the experience of other countries at a similar stage of development, and with a similar resource endowment pattern and economic and social structure. The problem with this approach, which makes it impossible to apply in practice, lies in the difficulty of identifying countries having such common features.

3/ Second United Nations Development Decade, Report of the Secretary-General, E/5530(30 May 1974), p.7.

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The relevance of the overall objectives and targets set out in the strategy for appraising progress made by individual countries in the course of the Decade has been answered mainly in the negative in the Strategy document itself and in other United Nations documents on the subject. The targets and objectives in question, and those derived from them, are intended as "a broad indication of the scope of convergent efforts to be made during the Decade at the national and international levels", while leaving it to each developing country to formulate its own growth target in the light of its own circumstances.4/

This suggests that a proper frame of reference against which to appraise performance of individual developing countries during the Decade would have to take into account both their past performance and their declared objectives with respect to the future; the first providing an indication of their ability and potential for growth and the second a reflection of their aspirations and judgement concerning future prospects.

The present paper has been prepared to meet the requirements of the mid-term review and appraisal effort. The approach adopted combines elements from the review and appraisal exercise at the national, regional and sectoral levels. As a background to, and in order to provide base lines for, assessing progress in the ECWA region during the first half of the Second Development Decade, considerable emphasis has been put in the paper on developments during the nineteen sixties.

The review and appraisal of overall growth performance covers, in varying degrees, the twelve countries served by ECWA, but concentrates mainly on developments in the six countries of the region (viz., Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic) where sufficient information is available to render the exercise feasible and

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4/ General Assembly resolution No. 2626(XXV), Para. 13.

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meaningful. Emphasis is laid on the growth of total and per head production of goods and services; changes in the structure of output and its uses; growth of fixed capital formation and changes in its structure and composition; the mobilization of financial resources for financing domestic capital formation - indicating the role of the private and public sectors in generating savings and the extent of resource inflows or outflows; and, developments in the external trade and payments situation.

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I. GROWTH OF PRODUCTION

A. Alternative measurements of production

The ultimate satisfaction of needs - material or otherwise, which make up the standard of living of the people of a country depends, in the final analysis, on progress achieved in producing goods and services. Production performance, therefore, become the focal point in any attempt to review economic and social progress or, in short, growth. From the outset, however, it should be emphasized that there can be no single approach to the measurement of production applicable to all countries or to the same country year after year. Economic circumstances and characteristics differ widely among countries so as to make such a common measure impractical. Therefore, it must rest upon each country to develop, in the light of its own particular conditions, the appropriate set of indicators by which to appraise its production performance.

The change in total real output - or real output per head - has come to be accepted as the most representative single measure of growth, although it ignores the implications of income distribution for the standard of living and, under conditions of less than full employment, it is an imperfect indicator of growth in productive capacity. The measurement of output in real terms presupposes that appropriate deflators are available to eliminate the effect of price changes from the components of total production which initially have to be collected in money terms. For many of the developing countries, including almost all countries in the ECWA region, the preparation of the requisite deflators has not as yet proved feasible, which explains why they continue to report their production in monetary rather than in real terms.

Several concepts are available for measuring the volume of a country's final output of goods and services. There is, first, the distinction between domestic and national production which stems from the treatment of the output of foreign-owned factors of production and that of nationals abroad.

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Statistically, the output measures in question differ from one another by the inclusion of net factor income transactions in the national product measure and their exclusion from the domestic one. Domestic output is, however, the relevant concept when the intention is to measure production within a certain geographical area by all factors of production operating there irrespective of their ownership. This concept "is likely to be the most useful aggregate for economic planning purposes where the activity of all resident producers is at issue and the disposition of all local resources is of concern" 5/. But where foreign-owned production factors make a significant contribution to total output, and particularly where their activities are not properly integrated in the economic life of a country, and/or where earnings of nationally-owned production factors engaged abroad are significant, then the national product measure is the more relevant concept since it will reflect the output of goods and services accruing to a country's own citizens.

Secondly, production, whether measured on a domestic or national basis, may be valued at market prices or at factor cost, including indirect taxes (net of subsidies) in the first instance, and excluding them, in the second. But when government tax and transfer policies are not changing, or are only changing slowly, it does not matter which of these two approaches is used.

Thirdly, there is the possibility of measuring output gross or net of capital consumption. While in theory the net concept is superior to the gross one - since it provides a measure of the output of goods and services available for consumption and net additions to capital stock - in practice considerable distortions may be introduced by using the net concept due to

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5/ See United Nations, Department of Economic and Social Affairs, World Economic Survey, 1969-1970, United Nations Publication, Sales No.: E.71.II.C.1, New York (1971), p.5.

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the element of arbitrariness generally involved in estimates of capital consumption,[6/] particularly in developing countries.

Thus, it is essential when appraising production performance to be aware of the implications inherent in using different output aggregates, and to make the choice in the light of actual circumstances and needs. For most countries of the region, the distinction between the domestic and national production concepts is significant.

As Table 1 shows, the gross national product (GNP) is substantially below the gross domestic product (GDP) in the three major oil-producing countries of the region,[7/] namely, Saudi Arabia, Kuwait and Iraq, and somewhat above it in Jordan, Lebanon and the Syrian Arab Republic, in that order. The discrepancy between GNP and GDP in the oil economies is accounted for largely by factor income payments abroad arising in connexion with the operations of foreign-owned oil companies.[8/] Saudi Arabia has the lowest GNP/GDP ratio among the six countries listed, averaging 79 per cent at the outset of the Decade. Moreover, this ratio has shown a marked tendency to decline in the period 1971-1973.

In Kuwait, the ratio of GNP to GDP increased from 79.4 to 84.4 per cent over the second half of the 1960s but declined again to 80.6 per cent by 1972.[9/] The higher GNP/GDP ratio in Kuwait, compared with Saudi Arabia,

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6/ "The concept of net output is of particular importance to a developing country in which the capital intensity of the economy is increasing rapidly from a relatively low level .... In these circumstances...the proportion of new production set aside for maintaining capital equipment will need to rise. The net product would thus tend to increase at a somewhat slower pace than the gross product". (Ibid. p. 6).

7/ Available evidence indicates similar wide differences between GDP and GNP for the other oil-producing countries in the region.

8/ The recent steps taken by the oil-producing countries of the region to gain increasing control over the exploitation of their oil resources should work, in the coming years, in the direction of narrowing the gap between GDP and GNP in these countries. A similar influence is expected to come from the flow of investment income to these countries made possible by investment of surplus funds abroad.

9/ The decline in the GNP/GDP ratio in both Kuwait and Saudi Arabia in the first two years of the Decade must be viewed against the sharp rise in the value of oil exports, relative to other sectors, which followed the Teheran and Geneva price agreements.

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Table 1. Alternative output measures

	Index: gross domestic product at market prices=100	
	Gross national product at market prices	Gross domestic product at factor cost
Oil economies		
Iraq		
1964-1966	85.9	94.9
1968-1970	86.7	93.7
1971	85.5	94.2
Kuwait[a/]		
1965-1966	79.4	99.6
1969-1970	84.4	99.7
1971	81.2	99.9
1972	80.6	99.9
Saudi Arabia[b/]		
1968-1970	79.0	99.0
1971	75.2	98.5
1972	72.9	98.7
1973*	72.1	99.2
Non-oil economies		
Jordan		
1960-1962	107.8	91.6
1964-1966	108.2	89.5
1968-1970	106.0	90.3
1971	105.9	90.7
1972	105.6	90.0
1973*	108.7	88.6
Lebanon		
1964-1966	103.3	92.2
1968-1970	103.5	92.8
1971	103.6	92.4
1972	103.6	92.3
Syrian Arab Republic[c/]		
1964-1966	100.8	91.4
1968-1970	101.7	92.2
1971	101.3	91.4
1972	...	88.5
1973*	...	87.1

Source: United Nations Economic Commission for Western Asia, based on data compiled from national sources.

* Provisional.

a/ Fiscal years beginning first of April of year stated.
b/ Hijri fiscal years corresponding to the nearest calendar year stated.
c/ Based on data at constant prices.

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reflects the fact that despite the more extreme dependence of the former country on income from oil which, in principle, should entail a lower GNP/GDP ratio than in the latter country, factor income payments to the oil companies are partly offset by Kuwait's substantial earnings from its foreign assets holdings. In Iraq, where a lower proportion (about one-third) of income directly originates in the oil sector, the GNP/GDP ratio is higher than in the other two oil-economies considered; moreover, this ratio has remained quite stable varying between 86 and 87 per cent during the period 1964-1971.

Turning to the non-oil economies, it can be seen that, during the past decade, GNP tended to exceed GDP by 6 to 8 per cent in Jordan, by about 3.5 per cent in Lebanon and by less than 2 per cent in the case of the Syrian Arab Republic. Similar discrepancies continued to be observed in the early nineteen seventies.

From the above it is clear that long-term growth rates in countries of the region could differ significantly, depending on whether GNP or GDP is used, especially in the case of Saudi Arabia. In addition, economic relationships and indicators involving the use of total output such as propensities to consume and import, investment and savings rates, output per head of population and productivity levels, will be strongly influenced by the choice of the output measure particularly in the case of the oil economies where GNP is substantially below GDP.

The highly stable relationship between indirect taxes (net of subsidies) and total output of goods and services in the countries listed in Table 1, prevailing in the 1960s, has continued into the early part of the current decade with the exception of the Syrian Arab Republic and, to a lesser extent, Jordan, where the significance of indirect taxes and subsidies tended to increase[10/]. Accordingly, it should make little or no difference,

10/ Available information indicate similar developments in the case of Oman and Yemen though in these two countries indirect taxes and subsidies remain of relatively small importance.

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on average, with the possible exception of the case of the Syrian Arab Republic, whether overall growth is measured by using output valued at factor cost or at market prices, though short-term differences might at times be significant. However, for computing the kind of economic relationships referred to in the preceding paragraph, differences in the valuation method can be expected to strongly influence the results, except in Kuwait and Saudi Arabia where the difference between output at market prices and its value at factor cost is very small. In Iraq, the difference between the market and factor cost valuation of total output is relatively low, varying between 5 and 6 per cent. In the three non-oil economies examined, however, indirect taxes (net of subsidies) account for 8 to 13 per cent of the market value of GDP, being highest in the Syrian Arab Republic.

B. Growth of aggregate product

The International Development Strategy establishes, as minimum growth targets for the developing world in the Second United Nations Development Decade, average annual growth rates of 6 per cent and 3.5 per cent in total and per head gross product, respectively. These targets and those derived from them are conceived by the strategy as "a broad indication of the scope of convergent efforts to be made during the Decade at the national and international levels", while entrusting each developing country with setting its own targets for growth in the light of its own circumstances. Accordingly, the relevance of the global targets for any one country or region is connected with the effort that each country is expected to make in the Decade in relation to its development potential and recent performance.

Time-series of national accounts, which are basic to the measurement of economic growth, are available in a statistically acceptable form for only six out of the twelve countries of the ECWA region, namely, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic. Only for three countries, namely, Iraq, Jordan and the Syrian Arab Republic, do these series extend for a full decade. Besides being short on time-coverage, these series are also deficient in reflecting output changes in real terms (at constant prices), as against changes in monetary terms (at current prices). For the other six countries, namely, Bahrain, Democratic Yemen,

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Oman, Qatar, United Arab Emirates and the Yemen, the state of statistics is such that only very rough orders of magnitude of the rates of their economic growth could be obtained, based on partial information and some production indicators for the major sectors, particularly oil.

It would appear (see Table 2) that the highest annual average growth rates in GNP in the past decade (1960-1970) have been realized in the United Arab Emirates (30 per cent) and Oman (19 per cent), countries which recently and very rapidly became important oil producers. Next in rank come some of the older oil producers, such as, Saudi Arabia (10.5 per cent), Qatar (9.6 per cent), and Kuwait (7.9 per cent). Growth rates in the remaining two oil-producing countries, namely, Bahrain and Iraq, were around 6.4 per cent per annum. Of the non-oil countries, only Jordan achieved a rate higher than the Second Development Decade global target rate (6.6 per cent).11/ Growth in the Syrian Arab Republic and Lebanon averaged around 5.9 and 4.7 per cent per annum, respectively. The rate of economic growth in Yemen has been somewhere between zero and 3 per cent whereas Democratic Yemen seems to have suffered a negative average growth rate due, mainly, to the closure of the Suez Canal and political disturbances.

It is believed that growth rates of most countries in the region, including those which were relatively high, during the last decade, did not by any means reflect their full development potential. Quite aside from the fact that rapid growth of oil production accounts, in most cases, for the exceptionally good performance observed, a number of factors contributed to depress economic growth in several of the countries under consideration.

Weather conditions remained a major unsettling factor affecting agricultural production in most countries of the region. But, of all the extraneous factors hampering economic development in the region, the most important has been the Middle East War of 1967 and its aftermath.

11/ This compares with an annual growth rate of almost 10 per cent in the period 1960-1966. Considering the serious break in the continuity of the national accounts statistical series, which the occupation of the West Bank in June 1967 entailed, the rate of growth in the earlier part of the Decade might be more indicative of the growth potential of the Jordanian economy.

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Table 2. Average annual growth rates of total population and of aggregate and per head gross national product in countries of the region during the period 1960-1970
(in per cent)

Country	Gross national product at market prices	Population	Gross national product per head
Bahrain	6.4	3.5	2.8
Democratic Yemen	-2.8	2.3	-5.0
Iraq	6.4	3.5	2.8
Kuwait	7.9	9.3	-1.3
Jordan[a]	6.6	3.4	3.1
Lebanon[a]	4.7	2.8	1.8
Oman	19.4	2.0	17.1
Qatar	9.6	9.1	0.5
Saudi Arabia	10.5	2.7	7.6
Syrian Arab Republic[a]	5.9	3.4	2.4
United Arab Emirates	29.5	5.0	23.3
Yemen	3.0	2.5	0.5

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

a/ Excluding Palestinian refugees.

Jordan[12] suffered most as the War resulted in the occupation of the West Bank, which generated close to 40 per cent of Jordan's gross product before the War. The occupation of the West Bank did not only cause the loss of an important outlet for East Bank products, particularly manufactured goods, but also deprived the Government of an important source of tax revenue and the country of a major source of foreign exchange associated with the tourist industry[13]. The War also resulted in massive population displacements, mainly in the direction of Amman and other urban centres, creating pressures on the budget, labour market and the urban infrastructure; the suspension of some important development projects; and, the loss of agricultural output in the Jordan Valley as a result of the intermittent fighting which continued for years after the ceasefire. Moreover, the closure of the Suez Canal necessitated the diversion of a large proportion of the seaborne trade of Jordan from the Port of Aqaba to the Port of Beirut at considerable increases in cost. Indirectly, the War created a situation of political and economic uncertainty with adverse effects on consumption and investment expenditures. Furthermore, rising tension between the Jordanian Government and Palestinian guerillas culminated in the confrontations of the Summer of 1970, with very adverse repercussions, particularly on the manufacturing and construction sectors. The situation was further aggravated by the suspension of financial aid by Kuwait and Libya following these events[14]. However, recovery from the effects of the War became

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12/ The adverse influence of the 1967 War with Israel and its aftermath on the economic development of the countries of the region has been felt mainly through higher budgetary allocations for defence and security (e.g., Iraq, Jordan and Syrian Arab Republic); their unfavourable effect on business confidence and the overall economic climate (Jordan and Lebanon), the interruption of oil exports immediately after the War from the oil-producing countries of the region, and, on a longer-term basis, through the commitment by both Kuwait and Saudi Arabia to extend substantial financial aid to Jordan and Egypt, undertaken during the Khartoum Summit Meeting.

13/ Jordan managed to avert a balance of payments and budgetary crisis only by a massive increase in financial aid, mostly from Arab countries.

14/ Earlier in July, Iraq and the Syrian Arab Republic closed their borders with Jordan which interfered in the flow of agricultural exports to neighbouring countries and in phosphate rock exports through the Port of Beirut. The Iraqi decision was withdrawn in October 1971 but the closure of Syrian border continued well into 1972.

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apparent in 1970 and 1971, not only in the oil-producing countries, where the adverse effects of the War were relatively of a passing nature and were more than compensated for by the rise in oil prices, but also in other countries of the region.

In Iraq as well as in the Syrian Arab Republic, the 1960s was a period of transition from one political and socio-economic set up to another, whereby the public sector progressively increased its hold over the economy. The implementation of the agrarian reform laws of 1958 (Iraq) and 1959 (Syrian Arab Republic), and of the nationalization laws of 1964 (Syrian Arab Republic) and 1965 (Iraq), affecting key activities in industry and commerce, had unsettling effects contributing, in the first case, to poor performance in agriculture, and, in the second case, to a retardation of industrial growth during the transitional period. Growth was also hampered by a weak external payments position, necessitating the imposition of import restrictions and exchange controls in both countries. An important inhibiting factor, affecting the growth of the Iraqi economy during the past decade, is also to be found in the low rate of growth of the oil sector relative to the situation in the neighbouring oil-producing countries, particularly after 1966.15/

Internal political strife, which sometimes took the form of civil war, as in Iraq, Jordan and Yemen, was also responsible for depressing growth below its feasible potential in these countries.

In certain cases, inadequate planning and implementation of public projects tended to dissipate part of the limited resources available for development purposes while in others, notably some of the oil-producing countries, and the less developed countries of the region, growth was below potential, mainly on account of the relatively low absorptive capacity of

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15/ Aside from the sharp decline in oil production and exports which followed the 1967 war, strained relations with the oil companies, following the termination of major oil concessions in 1961, provide the main explanation as oil production approached installed capacity and virtually no new investment was forthcoming.

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the economies in question for productive investment, reflecting largely constraints imposed by the institutional set-up and a deficient manpower situation.

Available statistical information (see Table 3) permits only a sketchy discussion of GNP growth in countries of the ECWA region since the inception of the Second Development Decade. For Saudi Arabia, the Syrian Arab Republic and Jordan,16/ the growth in GNP valued at constant prices averaged 14, 6.5 and 1.2 per cent per annum, respectively, in the first three years of the Decade; over the same period, Oman's GNP, valued in monetary terms, recorded an annual rate of growth of 16 per cent. Bahrain, Kuwait, Lebanon and Yemen experienced relatively fast growth in the period 1970-72, averaging 8.8, 18.3, 14.5 and 18.6 per cent, respectively, in current prices17/. Information relating to 1971 shows a rapid increase in Iraq's GNP over the previous year (9.2 per cent), and 50 and 40 per cent growth rates for Qatar and the United Arab Emirates, respectively.18/

Most of the factors referred to earlier as being responsible for holding down growth in the region below potential during the 1960s continued to exert their influence into the present decade. The Arab-Israeli conflict which culminated in another open confrontation in 1973 remains the most important disturbing factor, with particularly damaging consequences for the

16/ In the case of Jordan GNP figures, originally reported in current prices, were deflated using the cost of living index for Amman. Measured in monetary terms, the annual growth rate in Jordan's GNP approaches 9 per cent.

17/ When deflated by the cost of living index, the annual growth rates fall to about 11 and 3 per cent for Lebanon and Bahrain, respectively. Allowing for price increases, the expansion in Kuwait's GNP has probably been below 10 per cent.

18/ Owing to the sharp decline in Iraq's crude oil production during 1972, real growth in GNP probably did not exceed 2 per cent. On the other hand, the cumulative growth of GNP during the period 1970-73 in the United Arab Emirates could have attained the level of 30 per cent per annum.

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Syrian economy; the adverse effects of weather conditions on agricultural output in the non-oil economies; and civil disturbances in Lebanon, internal strife in Oman, opposing guerrillas and Government forces, and Iraq where fighting with the Kurds broke out again in 1974. In addition, the region has not been spared the consequences of the intensification of world inflation and the disturbances affecting the international monetary system.

However, growth in the region during the first half of the 1970s has been particularly marked by developments in the oil sector, the implications of which extend beyond the region and the present decade. By shifting the balance of power from the international oil companies to the producing countries with respect to the setting of prices, and in the direction of increased government control over the exploration of oil resources and ancillary operations, these developments have resulted in a sharp rise in these countries' take per barrel of crude oil produced and, consequently, in total oil revenues, which could not have been contemplated a few years back.

Before concluding this section, two features of the economic performance of countries in the region ought to be noted. In some countries the growth of output in the 1960s was characterized by a high degree of irregularity 19/ in the year-to-year rates of change. This irregularity was

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19/ An index, measuring the regularity of growth, was calculated with the help of the following formula:

$$\frac{100}{\bar{r}} \sqrt{\frac{\sum_{i=1} (ri - \bar{r})^2}{n}}$$

where, $\bar{r}$ = arithmetic average of annual growth rates in the period reviewed
ri = growth rate in year "i"
n = number of years

Such calculations for the six larger countries in the region yielded the following results:

Index of regularity of growth		
Iraq	=	87
Jordan	=	185
Kuwait	=	60
Lebanon	=	107
Saudi Arabia	=	35
Syrian Arab Republic	=	111

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Table 3. Average annual growth rates of total population and of aggregate and per head gross national product in countries of the region during the period 1970-1973 (in per cent)

Country	Growth rates[a]					Gross national product per head (1970 US dollars)	
	Gross national product		Population	Gross national product per head			
	At constant prices[b]	At current prices		At constant prices	At current prices	1970	1973[c]
Bahrain	3.0	8.8	3.5	-0.6	5.2	630	699
Democratic Yemen	21.4	...	3.0	17.9	...	107	127
Iraq	9.2	13.1	3.5	5.5	9.3	324	354
Kuwait	...	18.3	9.3	...	8.2	3,398	3,985
Jordan[d]	1.2	8.9	3.4	-2.2	5.3	274	294
Lebanon[d]	10.9	14.5	2.5	8.2	11.7	675	835
Oman	...	16.4	3.6	...	12.4	318	449
Qatar	50.0	...	6.3	41.0	...	2,532	3,571
Saudi Arabia	14.1	28.6	2.9	10.9	25.0	390	760
Syrian Arab Republic[d/e]	6.5	13.2	3.3	3.1	9.6	269	296
United Arab Emirates	39.6	...	5.4	32.4	...	2,181	2,891
Yemen	...	18.6	2.5	...	15.7	77	111

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

a/ 1970-71 for Iraq, Democratic Yemen, Qatar and United Arab Emirates; 1970-72 for Bahrain, Kuwait, Lebanon and Yemen.

b/ For Bahrain, Iraq, Jordan and Lebanon, GNP figures reported at current prices were deflated, using the cost of living index; therefore, they are subject to a considerable margin of error.

c/ 1971 for Democratic Yemen, Iraq, Qatar and United Arab Emirates; and 1972 for Bahrain, Kuwait, Lebanon and Yemen.

d/ Excluding Palestinian refugees.

e/ Refers to gross domestic product at market prices.

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particularly marked in Jordan and, to a lesser extent, in the Syrian Arab Republic and Lebanon. In contrast, in the large oil-producing countries, with the exception of Iraq, where a relatively marked degree of irregularity in the growth of output can be observed, the dispersion of the annual rates of growth around the average was relatively small, particularly in the case of Saudi Arabia.

In the second place, available information indicates that, for most of the past decade, output expansion in the region was associated, in varying degrees, with a relatively high degree of price stability 20/. After 1968, however, an acceleration in the rate of price increase became apparent in several countries of the region. This is reflected in the movement of consumer prices which had gained considerable momentum since 1973 in virtually all countries of the region.

C. Growth of product per head

While the growth rates of national product achieved in most countries of the region over the last decade were higher than the global average of developing countries, and indeed, higher than the global target for developing countries in the International Development Strategy, the significance of these rates for economic welfare has been adversely affected by the relatively high rates of population growth in most countries of the region. In Saudi Arabia, the two Yemens, Lebanon and Oman, the annual average growth rates of population are estimated to have been in the neighbourhood of the rate recommended by the Strategy for the Second Development Decade, i.e., 2.5 per cent; the remaining countries of the region are believed to have experienced rates that vary between 3.4 per cent in Jordan and the Syrian Arab Republic and 3.5 per cent in Bahrain and Iraq, and 5 per cent, 9.1 per cent and 9.3 per cent in the United Arab Emirates, Qatar and Kuwait, respectively (see Table 2).

20/ While the International Development Strategy does not refer specifically to inflation, the monitoring of the state of balance between the supply of goods and services and the demand for them must form an integral and essential aspect of the review and appraisal exercise if sight is not to be lost of a basic aim of the Strategy, namely, that of providing "increasing opportunities to all people for a better life [and] to bring about a more equitable distribution of income and wealth for promoting both social justice and efficiency of production". (GA resolution No. 2626(XXV), para 18).

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With some exceptions (Oman, Saudi Arabia and the United Arab Emirates), rapid population growth in countries of the region during the 1960s implied growth rates of per head national products that are lower than the Decade's annual average target rate of 3.5 per cent. In the extreme case of Kuwait and Qatar, due mainly to immigration, this resulted in an actually negative growth rate (-1.3 per cent) of per head national product in the first country, and in virtually no change in the per head product of the second. Also, the GNP per head of Democratic Yemen is estimated to have declined by 5 per cent per annum over the past decade, while that of Yemen hardly recorded any growth in the same period. Without under-estimating the influence of rapid population growth, it remains true that, with the notable exception of Kuwait and Qatar which experienced abnormally fast expansion in their population, inter-country differences in the growth of GNP per head in the period reviewed were mainly a reflection of the spread in their overall growth rates.

To put past growth trends in better perspective, however, the wide disparities in the levels of per head national product among the countries of the region should also be noted. At the threshold of the Second Development Decade, the region included countries with GNP per head as low as $77 (Yemen) and $107 (Democratic Yemen). At the other extreme, there are the small (in terms of population size) oil-producing countries, namely, Kuwait, Qatar and the United Arab Emirates, with a GNP per head in 1970 of $3398, $2532 and $2181, respectively. The position of Lebanon, with a GNP per head of $675, compares quite favourably with that of Jordan, the Syrian Arab Republic and Iraq, and with some of the oil-producing countries, namely, Bahrain, Oman and Saudi Arabia 21/. Table 3 reveals that the first few years of this decade have witnessed a further widening of the gap between the high and low per head income countries in the region.

21/ It needs to be emphasized, however, that with the possible exception of Iraq, Jordan and the Syrian Arab Republic, the absence of either authoritative population estimates or reliable national accounts statistics, or both, in the remaining countries of the region can introduce a substantial margin of error into the GNP per head estimates for those countries, as shown in Table 3.

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II. STRUCTURAL CHANGE

Much of the real meaning attached to economic growth stems from changes in the structure of production that tell the extent to which the increase in production expresses a durable increase in indigenous productive capacity and the extent to which productive capacity is deepened and diversified in a way that reduces the vulnerability of the economy to uncontrollable influences of nature or the outside world and ensures an adequate rate of future expansion. The process of development is also seen as generally involving a shift in the structure of production towards manufacturing activities, producing intermediate and capital goods, and the provision of different kinds of services. Thus, for a meaningful appraisal of economic performance, both the trend in aggregate output as well as the structural shifts involved would have to be considered.

The attainment of the overall objectives of the Second Development Decade is linked in the Strategy, inter alia, to the achievement of a substantial reduction in sectoral disparities and a rapid diversification of the structure of developing countries' economies. To this end, special emphasis is put on expanding production in the manufacturing sector, the target annual rate of growth of which is set at 8 per cent during the decade, compared with 6 per cent in the gross product of these countries. This growth in manufacturing output is to be such as "to ensure an adequate expansion of the industries that utilize domestic raw materials, that supply essential inputs to both agriculture and other industries, and that help to increase export earnings".22/

22/ GA resolution No. 2801(XXVI), para. 76.

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In considering the structure of production of developing countries, it is only natural that the areas of emphasis should vary from country to country and over time for the same country. An important aspect of the process of economic development, however, which needs to be kept under observation relates to the production of tangible goods, broadly defined to include output in the agricultural, manufacturing, mining and quarrying, basic utilities and construction sectors. This need stems from the relative scarcity of material goods in developing countries on which the level of physical consumption initially depends. Moreover, while excessive dependence in some developing countries on services could reflect the exploitation of real comparative economic advantages, more often than not, it is a symptom of a basic disequilibrium in factor markets rendering it difficult to expand physical production. The abundance of unskilled labour relative to the supply of capital and managerial and other skills, and hence the inadequacy of the complementary factors with which to combine that labour, pushes workers to seek employment in less remunerative service-producing activities. Thus, an expansion in the relative share of physical production, which helps to absorb some of the low-paid labour in the services sector, could be taken as an indication of improvement in the ability of a developing country to employ its productive factors more effectively towards the satisfaction of its needs.

Another aspect of the development process which is useful and meaningful to monitor relates to changes in the overall pattern of expenditure on the gross product, i.e., changes in the relative importance of expenditure on consumption, investment, exports and imports. In the context of the region, it is also meaningful to

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distinguish the contribution to output made by the non-monetized or subsistence sector of the economy, and the relative importance of the private and public sectors.[23]

The review and appraisal of structural change requires more detailed statistical series than the indication of global growth rates. For this reason, most of what could be indicated in what follows is related mainly to the following six countries: Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic.

A. Sectoral distribution of output

The basic difference in economic structure among the countries of the region is between oil and non-oil countries. This difference finds its main expression in the preponderance of commodity production in the former group of countries and of services in the latter, with the exception of Yemen. As can be

23/ The relative contributions of the non-monetized sector and of the private and public sectors to total output of goods and services are not considered in this paper because of lack of sufficient information and time. With respect to production in the subsistence sector, which is of particular importance in the less developed countries of the region, it is important to bear in mind that failure to monitor developments in this area will not only deprive the economy of an important indicator of the diversification process, but will also impart an illusionary element of gain to the output of the exchange sector of the economy. "The process of economic development - which depends on the extension and intensification of the division of labour - will encroach continuously on the subsistence sector, drawing off workers into the more specialized exchange economy and gradually monetizing it, swelling the inflow and outflow of traded goods. The effect of this process is to attach a market - determined economic value to a gradually increasing proportion of the goods and services produced in the subsistence sector". (See: United Nations, World Economic Survey, 1969-1970, op.cit., p. 7). The need to distinguish the respective roles of the private and public sectors in the production process is a recognition of the trend for more public involvement in economic life in most countries of the region, particularly in Iraq and the Syrian Arab Republic, where public control and ownership of the means of production were considerably extended by the nationalization measures of the mid-1960s and the subsequent years.

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seen from tables 4 and 5, the commodity producing sectors, including crude oil production, accounted towards the end of the last decade for 63 per cent of total output in Iraq, 70 per cent in each of Kuwait and Saudi Arabia, and exceeded 80 per cent in Bahrain and 90 per cent in Oman; at the same time, commodity production represented less than 50 per cent of total production in the Syrian Arab Republic and Democratic Yemen, about one-third in each of Jordan and Lebanon, but was about three-fourths of the total in Yemen. The distribution of production in the six countries (viz., Iraq, Kuwait, Jordan, Lebanon, Saudi Arabia and the Syrian Arab Republic), for which the relevant information is available, changed relatively very little in the 1960s, with services gaining somewhat (3 percentage points) in importance in both Lebanon and the Syrian Arab Republic.24/

The economic structure of the oil economies is dominated by crude oil production, the contribution of which to gross domestic product (GDP) by the end of the 1960s was around 60 per cent in Kuwait and far above that level in Oman, Qatar, and the United Arab Emirates. In Saudi Arabia and Iraq, crude oil production accounted for only 47 and 31 per cent of GDP, respectively, reflecting these two countries relatively lower direct dependence on that activity then.25/

A major feature of the region's heavy dependence on oil is that the bulk of the crude oil produced is exported as such. Thus,

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24/ In this connexion, it is worth noting the increase in relative importance of value added in the sector of public administration and defence over the last decade in Iraq (from 8.3 per cent to 11.5 per cent), Jordan (from 16 per cent to 19.2 per cent), and in the Syrian Arab Republic (from 8.4 per cent to 12.8 per cent).

25/ By adding the contribution of oil refining to that of crude oil production (26 per cent in 1970) in Bahrain, the contribution of the oil sector to GDP rises to over 70 per cent .

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in the period 1970-72 the region, as a whole, exported over 90 per cent of its total oil production, with Iraq exporting around 95 per cent of its output, Kuwait (90 per cent), Saudi Arabia (89 per cent) and Oman and the United Arab Emirates exporting all their output; Bahrain, on the other hand, supplements its own small production by imports from Saudi Arabia to meet the requirements of its large refinery.

Developments in the oil industry, since the beginning of the current decade, have been radically changing the nature of existing relations between the oil-producing countries in the region and the international oil companies, with the right to set oil prices reverting to the producing countries and with these countries gaining increasing control over the exploitation of their oil resources. Under the impact of these developments and a sharp rise in production, the contribution of crude oil production to total output in Saudi Arabia rose from an average of about 47 per cent in 1968-1970 to 68 per cent in 1973.26/ Available information shows a rise of 6 percentage points in the share of crude oil production in Iraq's GDP, to 37 per cent, in 1971. With the sharp recovery in Iraq's crude oil production in 1973, following a 13 per cent decline in 1972 in the wake of the nationalization of the Iraq Petroleum Company (IPC), crude oil production could have gained further in relative importance. In Bahrain, Kuwait and Oman, under the influence of declining or slowly growing production, as well as more rapid developments in other sectors, the share of crude oil production in total output by 1972 was only about 2 and 5 percentage points higher in Bahrain and Kuwait, respectively, compared with the situation at the end of the last decade, whereas in Oman the corresponding share fell from 71 per cent to 58 per cent in 1972 and to 55 per cent in 1973.

26/ Notwithstanding the lack of national accounts statistics, it is reasonable to assume that Qatar and the United Arab Emirates have also experienced similar developments.

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Table 4. Structure of total output in the oil economies of the region, selected periods[a]

(in per cent)

	Iraq			Kuwait[b]			Saudi Arabia[c]				Bahrain*		Oman[b]		
	1964-66	1968-70	1971	1965-66	1969-70	1972	1968-70	1971	1972	1973*	1970	1972	1968-70	1972	1973*
	63.5	63.0	64.7	71.9	69.7	72.8	69.9	74.9	77.2	81.8	80.3	75.7	94.2	85.2	81.4
try, g	17.3	17.6	13.4	0.4	0.4	0.3	6.0	4.5	3.8	2.8	0.9	1.0	15.2	10.7	9.8
	46.2	45.4	51.3	71.5	69.3	72.5	63.9	70.4	73.4	79.0	79.4	74.7	79.0	74.5	71.6
	8.0	9.3	9.7	0.4	3.6	2.7	9.1	8.7	7.1	6.4	50.2	42.4	0.1	0.1	0.1
ng	33.3	31.2	37.1	61.4	58.5	63.5	47.4	55.9	61.0	68.2	25.9	28.3	71.4	58.4	55.0
nd	1.4	1.5	1.4	2.4	3.7	3.6	1.5	1.3	1.1	0.8	1.6	1.7	-	0.2	0.4
	3.5	3.4	3.1	4.3	3.5	2.7	5.9	4.5	4.2	3.6	1.7	2.3	7.5	15.8	16.1
	36.5	37.0	35.3	28.1	30.3	27.2	30.1	25.1	22.8	18.2	19.7	24.3	5.8	14.8	18.6
and	6.4	6.1	5.7	2.9	3.4	2.8	7.2	6.6	5.6	4.2	0.8	2.0	6.4	1.3	1.7
il trade	7.9	8.1	7.4	8.2	8.0	7.4	5.8	4.7	4.2	3.3	5.3	5.6	1.1	2.7	3.2
and	1.2	1.4	1.4	1.4	1.8	1.4	1.9	1.4	1.3	1.0	1.1	2.9	0.4	0.6	1.1
ings	3.8	3.9	3.9	4.5	4.4	3.7	3.8	3.2	2.9	2.3	1.4	2.7	1.3	1.6	1.6
ion and	10.3	10.3	9.8	5.5	5.4	5.4	5.6	4.4	3.9	3.4	9.5	9.0	1.7	6.9	9.2
	6.9	7.9	7.0	5.6	7.3	6.4	5.8	4.8	4.9	4.0	1.6	2.1	0.9	1.7	1.8
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

ns Economic Commission for Western Asia, based on data compiled from national and international sources.

nates.

erence to gross domestic product valued at current factor cost for Iraq and Kuwait, at current market prices for and at current producers' values for Saudi Arabia.

nning 1 April of year stated.

s corresponding to the nearest calendar year stated.

Table 5. Structure of total output in the non-oil economies of the region, selected periods[a]

(in per cent)

Sector	Jordan					Lebanon			Syrian Arab Republic				Democrat Yemen
	1960-62	1964-66	1968-70	1972	1973*	1964-66	1968-70	1972*	1960-62	1968-70	1972	1973*	1969-7
Commodity Production	33.1	38.8	34.3	35.8	35.3	32.7	29.8	30.4	48.5	45.6	46.0	37.6	48.3
Agriculture, forestry, hunting and fishing	19.7	22.0	16.6	18.9	14.1	11.6	9.6	9.9	28.1	24.2	24.5	17.7	20.3
Industry	13.4	16.8	17.7	16.9	21.2	21.1	20.2	20.5	20.4	21.4	21.5	19.9	28.0
Manufacturing	6.6	9.0	9.5	11.2	12.0	13.1[b]	13.3[b]	13.9[b]					
Mining and quarrying	1.2	1.5	1.9			...	...	...	16.9	18.4	18.5	17.1	25.5
Electricity, gas and water	0.7	1.1	1.2	1.4	1.5	2.2	2.3	2.0					...
Construction	4.9	5.2	5.1	4.3	7.7	5.8	4.6	4.6	3.5	3.0	3.0	2.8	0.7
Services	66.9	61.2	65.7	64.2	64.7	67.3	70.2	69.6	51.5	54.4	54.0	62.4	51.7
Transport, storage and communication	11.7	9.0	8.3	8.1	8.6	8.1	8.5	7.5	10.7	11.2	10.0	15.1	5.6
Wholesale and retail trade	21.8	20.2	19.0	18.9	18.8	31.1	31.5	31.5	15.2	13.7	11.9	10.6	10.2
Banking, insurance and real estate	1.2	1.5	2.0	1.5	1.6	3.5	3.4	3.7	2.3	2.2	2.6	2.8	5.2
Ownership of dwellings	7.7	7.3	7.0	6.8	6.6	7.6	8.4	8.8	8.6	6.9	6.2	6.5	-
Public administration and defence	16.0	14.5	19.3	18.3	18.2	8.0	8.6	7.5	8.4	12.8	15.3	18.8	20.1
Other services	8.5	8.7	10.1	10.6	10.9	9.0	9.8	1[illegible].6	6.3	7.6	8.0	8.6	10.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

*/ Provisional estimates.

a/ Computed with reference to gross domestic product valued at current factor cost for Democratic Yemen and Jordan, at current mar prices for Lebanon and Yemen, and at constant factor cost for the Syrian Arab Republic.

b/ Excludes petroleum refining which is included under "electricity, gas and water".

The fact that not only will oil be produced at more favourable terms during the balance of the present decade, but also that any further expansion in world demand during that period may have to be met from countries in the region, notably Saudi Arabia, and to a lesser, nevertheless an important, extent from the United Arab Emirates and Iraq, could serve to accentuate the dependence of these countries on oil unless vigorous efforts to diversify the sources of output are undertaken. Invariably, however, all of the oil-producing countries will continue in the years to come to depend mainly on oil income to achieve their development and diversification objectives.

In the non-oil producing countries, with the exception of Lebanon, agriculture was still by far the most important of the commodity sectors by the end of the last decade, amounting in percentage of GDP, to around 70 per cent in Yemen, 20 per cent in Democratic Yemen, 24 per cent in the Syrian Arab Republic and 17 per cent in Jordan. In the latter two countries, agriculture declined in importance by 3 to 4 percentage points over the last decade;27/ in Lebanon also, the share of agriculture in GDP fell by 2 percentage points as production grew hardly at all. In the oil economies reviewed, it is only in Iraq and Oman that agriculture makes a significant contribution to output. This contribution, however, seems to have remained virtually unchanged during the 1960s in Iraq, averaging around 17 per cent of the total, while declining in importance in Oman following the discovery and exploitation of oil to an average of only 15 per cent of total

27/ In both Jordan and the Syrian Arab Republic, unfavourable weather conditions were a decisive factor in depressing agricultural output during the second half of the 1960s. Moreover, in Jordan agricultural production was adversely affected by the direct and indirect consequences of the 1967 war (e.g., loss of output and interference with the marketing of agricultural produce and the execution of agricultural projects), while in the Syrian Arab Republic the implementation of the agrarian reform Law of 1959 was a contributing factor.

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output in the period 1968-70. In Kuwait, as well as in Bahrain, Qatar and the United Arab Emirates, the agricultural sector is practically non-existent or of negligible importance, and in Saudi Arabia its share in total production by the end of the last decade was about 6 per cent only.28/

Since the start of the Second Development Decade, agriculture has lost further in relative importance in several countries of the region under the impact of recurring adverse weather conditions and developments affecting other sectors. By 1973, the contribution of agriculture to total production dropped to about 14 per cent in Jordan, 18 per cent in the Syrian Arab Republic, 3 per cent in Saudi Arabia and 10 per cent in Oman. In Iraq, the sector's share in GDP stood at about 13 per cent in 1971, and in Yemen it was about two-thirds in 1972.

Industrial production still occupies a modest place in all countries of the region (see tables 4 and 5). In Lebanon and the Syrian Arab Republic, for example, which enjoy the highest proportion of manufacturing and power output relative to GDP,29/ this proportion did not exceed 15 to 16 per cent by the end of the last decade. Iraq, Jordan and Saudi Arabia rank next, with close to 11 per cent of their GDP originating in manufacturing and power. The same activities accounted for about 7 per cent in Kuwait (including, as in Saudi Arabia, a significant contribution from oil refining), around 2 per cent in Yemen and were of negligible importance in Oman and the United Arab Emirates.

28/ For most countries of the region, the significance of agriculture goes far beyond its contribution to output, being the largest single employing sector of the economy and, consequently, the main source of livelihood for large segments of the population. Moreover, in the non-oil economies, agriculture generally provides the main source of exports.

29/ Excluding Bahrain and Democratic Yemen where, on account of petroleum refining, the share of manufacturing and power in GDP is around 52 per cent and 25 per cent, respectively.

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Significant increases in the importance of industry (manufacturing and power), over the last decade, relative to other sectors are apparent only in Jordan and Kuwait, where the relative position of industrial value added improved by 3 to 4 percentage points. In both countries, rapid expansion has been achieved from an initially small industrial base. In Saudi Arabia, the fast rate of growth of the manufacturing sector has not affected its relative position, as expansion was equally rapid in other sectors. Political and economic uncertainties which followed the overthrow of the Kassem regime in Iraq in 1963, and the nationalization laws of 1964 (Syrian Arab Republic) and 1965 (Iraq), affecting key activities in industry and commerce, were mainly responsible for the stagnation in the share of industrial output observed in the 1960s in these two countries.30/

Information given in tables 4 and 5, covering the early years of the current decade, do not reveal any significant change in the relative importance of manufacturing and power except in the case of Bahrain and Saudi Arabia where declines amounting to 8 and 2 percentage points, respectively, can be noted by 1972.

Aside from Kuwait and Saudi Arabia, where oil refining dominates manufacturing activity,31/ industrial production in the six relatively more industrialized countries of the region, shown in table 6 largely consists of light manufacturing (viz., food, textiles, clothing and footwear, leather and leather products, furniture and wood products). On the average, these branches have

30/ In Iraq, value added in manufacturing declined slightly in 1963 and 1964 and grew by less than 4 per cent in 1965. In the Syrian Arab Republic, the combined value added in manufacturing, mining and quarrying and basic utilities stagnated in 1964 and 1965.

31/ Unlike Iraq, where petroleum refining is primarily intended to satisfy domestic needs, in both Kuwait and Saudi Arabia domestic consumption represents only a minor fraction of the output of refined products, the rest being exported.

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been contributing, during the 1960s, around 50 per cent of total value added in manufacturing industry in Iraq, Jordan and Lebanon, and 70 per cent in the Syrian Arab Republic, while the share of capital goods and technologically advanced intermediate products constituting a relatively small fraction of the total. This state of affairs does not seem to have undergone a marked change over the last decade. In the remaining six countries, namely, Bahrain, Democratic Yemen, Oman, Qatar, United Arab Emirates and Yemen, industrialization is generally of quite recent origin and is still at a rudimentary stage,32/ though progress is being accelerated.

In recent years, while continuing to industrialize along import-substitution lines with concentration on light manufacturing processes, several countries in the region have been giving increasing attention to more capital intensive and/or export-oriented industries notably in the field of petrochemicals and other energy intensive industries, fertilizers, steel and cement.

With the notable exception of oil refining in Bahrain, Democratic Yemen, Kuwait and Saudi Arabia and, to a lesser degree, the manufacturing sector in Lebanon, industrial development in the region remained during the 1960s inward-looking, addressing itself to domestic demand, with very little spill-over to external markets (mainly to countries in the region). Of the four relatively industrialized countries of the region, namely, Lebanon, Iraq, Jordan, and the Syrian Arab Republic, Lebanon is the only country which exports a significant portion of its manufacturing output (see table 7). In 1970, Lebanon exported around one-fifth of its output of manufactured goods, compared with 12 per cent in 1964, with the most spectacular increase occurring in the non-metallic minerals branch. In marked contrast, the share of exports in total manufactured output in the remaining three countries was in the range of 4 to 6 per cent, towards the end of the last decade, with very little improvement from levels of earlier years.

32/ Excluding oil refining operations in Bahrain and Democratic Yemen.

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Table 6. Composition of the manufacturing sector, selected years

(Percentage distribution of value added)

	Oil economies					Non-oil economies						
	Iraq		Kuwait[a]		Saudi Arabia[b]	Jordan			Lebanon		Syrian Arab Republic	
	1964	1968	1966	1968[c]	1968	1963	1966	1969	1964	1970	1963	1968
Food, beverages and tobacco	27.1	30.3	2.0	4.0	5.2	27.2	24.1	21.6	28.8	26.2	27.7	29.5
Textiles	7.2	8.6	-	-	1.2[d]	3.4	5.2	4.1	21.0	20.4	34.8	33.6
Clothing and footwear	9.4	9.7	-	-		12.7	9.4	9.4			2.0	3.2
Leather and leather products	1.2	0.9	-	-	0.4[d]	0.9	1.7	1.1			1.3	0.7
Wood products & furniture	3.2	2.4	0.8	1.5	2.4	8.8	9.2	7.1	8.1[e]	7.2[e]	8.3	4.7
Paper & paper products, printing & publishing	2.0	3.1	0.3	0.4	1.1	2.7	3.0	3.1	9.7	12.4	1.3	1.1
Chemical & rubber products	2.0	2.1	0.5	1.9	0.5	2.1	5.8	6.4			9.3	10.9
Petroleum products	13.6	10.8	92.4	86.5	77.2	13.4	14.5	12.3	f/			
Non-metallic mineral products	15.5	13.5	2.8	2.9	5.5	15.3	14.6	15.9	14.2	15.0	7.2	6.4
Cement	8.7	7.2	...	...	...	12.4	11.2	12.1	...	...	...	...
Basic metals and metal products	4.7	5.3	0.2	1.7	1.4	7.0	6.7	12.0	12.7	13.4	4.4	5.3
Machinery and transport equipment	2.5	2.3	1.0	1.1	4.5	4.8	4.4	5.2			2.9	3.5
Repair services	6.4[g]	6.7[g]	h/	h/	h/	h/	h/	h/	h/	h/	h/	h/
Miscellaneous	5.2	4.3	-	-	0.6	1.7	1.4	1.8	5.5	5.4	0.8	1.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

Table 6. Composition of the manufacturing sector, selected years (contd.)

a/ Data are for the "organized" manufacturing sector. This sector accounted for about 86 per cent of total value added in manufacturing according to the results of the 1966 census.

b/ The figures are for the year 1388 Hijri (March 31, 1968 to March 18, 1969). They were obtained from the sample survey of manufacturing establishments, carried out in 1389 Hijri. This survey covered all industrial units irrespective of their size with the exception of the petroleum sector and enterprises sponsored by Petromin (General Petroleum and Minerals Organization). The original total was adjusted to include petroleum refining on the basis of the share of this branch in total value added in manufacturing around the period in question.

c/ Average of 1967-1969.

d/ Footwear is included with leather and leather products.

e/ Furniture only; wood products are included with paper, rubber and chemical products.

f/ Data on manufacturing exclude value added in petroleum refining.

g/ Includes electrical repair shops, repair of motor vehicles and bicycles and other repair services; it excludes footwear repair which is included with clothing and footwear.

h/ Included with relevant branches.

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Table 7. Ratio of exports to gross output in manufacturing industry, selected countries and years[a]

(in per cent)

	Iraq		Jordan		Lebanon[b]		Syrian Arab Republic	
	1964	1968	1964	1969	1964	1970	1963	1968
Total manufacturing	2.8	4.1	4.2	4.8	11.8	20.9	5.2	5.7
Food, beverages and tobacco	0.8	2.9	7.8	4.9	8.0	10.8	1.4	1.8
Textiles	0.2	0.8	0.5	4.8			5.9	5.9
Clothing and footwear	0.1	1.5	2.1	4.1	14.1	22.8	43.1	37.3
Leather and leather products	62.2	0.5	1.2	1.8			5.3	7.9
Wood products and furniture	1.6	5.2	1.4	0.2			1.5	4.5
Paper and paper products, printing and publishing	1.3	1.6	1.2	18.3	11.8	23.3	3.6	6.7
Chemical and rubber products	3.6	4.9	2.6	6.5				
Petroleum products	3.1	8.6	1.2	0.4	...	...	3.7	2.1
Non-metallic mineral products	14.3	17.2	3.3	9.6	6.8	24.3	3.9	5.2
Cement	27.3	32.9	3.7	13.2	...	...	...	...
Basic metals and metal products	-	0.3	0.1	0.3	17.8	27.8	9.1	11.5
Machinery and transport equipment	-	2.8	3.6	12.4			9.3	21.8
For reference (in millions of national currency units)								
Total value of manufactured goods exports	4.3	8.5	1.2	2.4	125.5	354.5	69.8	97.8
Total value of manufacturing gross output	150.4	206.9	28.5	50.1	1058.8	1696.9	1322.0	1722.0

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

a/ Export data relate to domestically produced goods in Iraq, Jordan and Lebanon, and to special exports in the case of Syrian Arab Republic. Gross output data are at market prices for Lebanon and Syrian Arab Republic and at factor cost for Iraq and Jordan; in Iraq, however, trade margins are included except in refining products.

b/ Petroleum products are excluded.

Available information indicates that public-owned enterprises accounted, on the average, for some two-thirds of value added in manufacturing in the Syrian Arab Republic and for more than 50 per cent in Iraq in the second half of the last decade. If production in small workshops is excluded, the shares of the public sector in value added in manufacturing rises substantially in both countries. At the other extreme, there is Lebanon with virtually all manufacturing activity being concentrated in the hands of the private sector. Jordan, Kuwait and Saudi Arabia occupy a more or less intermediate position. In Jordan, virtually, all the large and leading industrial enterprises were established with the help of the Government equity participation, which in 1970 amounted to JD 3.6 million and represented an average participation rate of around one-fourth. While both Kuwait and Saudi Arabia generally favour private ownership of manufacturing activity, the public sector in these two countries has found it increasingly necessary to take the initiative and subscribe heavily to the establishment of large capital-intensive and export-oriented industries. A similar process is taking place in the smaller oil-producing countries.

The preceding discussion makes it evident that there is an urgent need to diversify the structure of output in both oil and non-oil countries. In the former group, heavy dependence on crude oil carries with it an element of risk far greater than could be implied by a similar degree of dependence on another commodity, given the exhaustable character and the strategic importance of oil for the world economy. Similarly, while heavy reliance on services has not prevented Lebanon and Jordan from achieving high growth rates, and Lebanon from attaining a relatively high standard of living, the argument for diversification in the direction of production of material goods remains very strong. This is particularly so as the continued satisfactory performance of the services sector largely depends on external factors which are beyond the control of the two countries in question and which make their economies highly vulnerable to economic and political decisions, taken abroad, mainly in neighbouring countries.

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B. Pattern of expenditure

At an aggregative level, the pattern of expenditure on the gross product is indicative of the choice a country makes between present and future consumption, the relative importance of internal demand (consumption and investment) and external demand (exports of goods and services), and of the degree of openness of the economy, i.e., the degree of export and import dependence. From the outset, however, it is important to point out that relating the major expenditure flows in the economy to the gross domestic product (GDP) is more meaningful in connexion with comparisons intended to emphasize the income-generating aspect of the flows in question. But where the emphasis is on the allocation of a country's output of goods and services, then the gross national product (GNP) becomes the more relevant product aggregate since it represents the income available, in contrast to GDP which represents the income generated. Such a distinction, it should be noted, would be unnecessary in countries where net factor income transactions are relatively unimportant. This, however, is not the case for many countries in the region, with GDP being substantially higher than GNP in the oil economies, on account of factor payments to the oil companies, and somewhat lower in the non-oil economies.

The overall pattern of expenditure on GDP differs substantially among the six countries of the region where the relevant information is available, namely, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic (see table 8). These differences are particularly pronounced between the oil and non-oil economies. Thus, expenditure on consumption absorbs a significantly lower proportion of GDP in the oil economies, compared with the situation in the non-oil economies. By the end of the last decade, average expenditure on consumption varied from 46 per cent of GDP in Kuwait, to 52 per cent and 68 per cent in

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Saudi Arabia and Iraq, respectively; the corresponding ratio amounted to 88 per cent in the Syrian Arab Republic, 89 per cent in Lebanon and 109 per cent in Jordan.[33] During the second half of the sixties, only Kuwait recorded a significant increase of 5 percentage points in its consumption/GDP ratio, while the ratio declined by 3 percentage points in the Syrian Arab Republic.

Available information for the beginning years of the 1970s reflects a significant decline in the consumption/GDP ratio in Kuwait and Saudi Arabia, with the decline being particularly marked in the latter.[34] As for the three non-oil economies examined, the decline by some 6 percentage points in the consumption/GDP ratio in the Syrian Arab Republic is worth noting.

Private consumption remains considerably more important than public consumption in the non-oil economies, relative to the situation in the oil economies examined. By the end of the last decade, private consumption represented around 72 per cent of total consumption expenditure in Jordan, 77 per cent in the Syrian Arab Republic and 90 per cent in Lebanon; in contrast, its share in Iraq was 70 per cent, in Kuwait about two-thirds and in Saudi Arabia 63 per cent. However, the share of the public sector in total consumption has shown a marked tendency to increase in each of the Syrian Arab

33/ The marked discrepancy in the consumption/output ratios between the oil and non-oil economies narrows considerably when consumption is related to GNP instead of GDP. Taking GNP as the basis of comparison, the consumption/output ratio rises to 78 per cent in Iraq, 54 per cent in Kuwait and 66 per cent in Saudi Arabia. At the same time, the same ratio drops by about 6, 3 and 2 percentage points in Jordan, Lebanon and the Syrian Arab Republic, respectively.

34/ The opposite trend can be observed in the case of Oman where the relative importance of consumption in total domestic expenditure is estimated to have almost doubled over the first three years of the current decade, reaching about 55 per cent.

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Republic, Kuwait and Jordan, with little change reported in the case of Iraq, Lebanon and Saudi Arabia.

With respect to gross domestic capital formation, which is discussed in some detail below, attention may be drawn to the wide disparity among the countries reviewed in the relative importance of this expenditure flow.

External demand generally assumes a much greater role, relative to internal demand, as a generator of income in the oil economies than it does in the non-oil economies. By the end of the last decade, exports of goods and services averaged about 35 per cent of total expenditure on GDP in Iraq, 64 per cent in Kuwait and 58 per cent in Saudi Arabia. The corresponding ratios in the non-oil economies were 15 per cent in Jordan, 22 per cent in the Syrian Arab Republic and 33 per cent in Lebanon. Little change has occurred in the relative importance of exports of goods and services in the six countries examined over the second half of the sixties, with gains and losses ranging from 1 to 4 percentage points. However, information relating to the early part of the 1970s points to a strong upward tendency in the relative importance of exports of goods and services in many countries of the region, notably Saudi Arabia and Lebanon.

Among the six countries listed in table 8, it is in Jordan and Lebanon that the highest import/GDP ratios obtain. In Jordan, the ratio in question has increased by 6 percentage points, to 47 per cent, over the second half of the last decade, whereas in Lebanon the ratio declined, by 2 percentage points, to 41 per cent of GDP. In Kuwait and Saudi Arabia, imports of goods and services, by the end of the decade, amounted to 27 and 30 per cent of GDP, respectively. Iraq and the Syrian Arab Republic are found at

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the lower end of the scale. In Iraq, expenditure on imports of goods and services accounted for 18 per cent of GDP - a retreat of 5 percentage points from the mid-decade position. In the Syrian Arab Republic the import/GDP ratio has remained below 25 per cent. In both these countries, however, the expansion of imports has generally been held down by the slow growth of exports which necessitated the imposition of import restrictions and exchange controls.35/ The opening years of the present decade have witnessed increases in the import/GDP ratio in the case of Jordan (52 per cent in 1973), Lebanon (46 per cent in 1972) and Iraq (21 per cent in 1971). The import/GDP ratio dropped by about 10 percentage points in Kuwait (20 per cent in 1971) and by 7 percentage points in Saudi Arabia (22 per cent in 1972); in the case of the Syrian Arab Republic, the ratio has fluctuated around a downward trend and was about 23 per cent in 1973.

35/ Relating imports of goods and services to GNP results in a considerable increase in the import/output ratio in the oil economies (about 3 percentage points in the case of Iraq, 5 percentage points in Kuwait and 8 percentage points in Saudi Arabia) and some reduction in the case of the non-oil economies (about 3 percentage points in Jordan and 1 percentage point in Lebanon), thus narrowing the apparently large differences in the degree of import dependence between the two groups of countries, particularly between Jordan and Lebanon on one side and Kuwait and Saudi Arabia on the other.

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Table 8. Pattern of expenditure on the gross domestic product[a]

(in per cent)

	Index: gross domestic product = 100					
	Consumption					
	Total	Private	Public	Gross domestic Capital formation[b]	Exports of goods and services	Imports of goods and services
Oil economies						
Iraq						
1964-1966	68.8	49.3	19.5	15.9	37.8	-22.5
1968-1970	68.4	48.1	20.3	14.5	34.7	-17.6
1971	66.2	45.8	20.4	14.8	40.2	-21.2
Kuwait[c]						
1965-1966	40.3	26.8	13.5	16.8	66.6	-23.7
1969-1970	45.5	30.4	15.1	17.1	64.4	-27.0
1971	39.8	24.0	15.8	10.4	69.4	-19.6
1972	39.1	24.0	15.1	9.7	68.3	-17.1
Saudi Arabia[d/e]						
1968-1970	52.1	32.9	19.2	19.3	58.2	-29.6
1971	44.5	28.0	16.5	11.9	66.3	-22.7
1972	39.6	24.5	15.1	12.4	70.3	-22.3
Non-oil economies						
Jordan						
1964-1966	106.6	84.4	22.2	16.3	17.5	-40.4
1968-1970	108.8	78.4	30.4	23.1	15.1	-47.0
1971	110.0	81.9	28.1	22.3	9.3	-41.6
1972	106.8	77.7	29.1	20.5	20.8	-48.1
1973*	108.5	76.6	28.9	26.5	17.5	-52.5
Lebanon						
1964-1966	90.0	81.3	8.7	22.9	29.6	-42.6
1968-1970	88.6	79.3	9.3	18.7	33.4	-40.7
1971	86.7	77.8	8.9	19.8	37.4	-43.9
1972	87.8	79.8	8.0	20.4	37.9	-46.1

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Table 8. Pattern of expenditure on the gross domestic product[a/] continued)

(in per cent)

	Index: gross domestic product = 100					
	Consumption			Gross domestic Capital formation[b/]	Export of goods and services	Import of goods and services
	Total	Private	Public			
Syrian Arab Republic						
1964-1966	90.9	74.8	16.1	11.7	20.1	-22.7
1968-1970	87.9	68.4	19.5	15.4	21.7	-25.0
1971	88.1	68.3	19.8	15.0	20.6	-23.7
1972	86.1	65.1	21.0	14.9	20.7	-21.7
1973*	84.1	59.3	24.8	14.2	24.5	-22.8

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

*/ Provisional.

a/ Based on data at current market prices, except for the Syrian Arab Republic where data is at 1963 market prices.

b/ Except for Iraq and the Syrian Arab Republic, where the reported data refer to gross domestic fixed capital formation.

c/ Fiscal years beginning 1 April of year stated.

d/ Hijri fiscal years corresponding to the nearest calendar year stated.

e/ Public consumption expenditures excludes those of Government enterprises, i.e. PTT, Saudi Airlines, Railroad Corporation and the General Petroleum and Mineral Organization (Petromin).

III. INVESTMENT IN FIXED CAPITAL FORMATION

A. Volume and growth of investment

Investment performance, in the sense of adding to the capital stock of a country, may be measured in terms of changes in the investment rate, i.e., the share of capital formation in total output and/or by the growth of investment over time. The appraisal of investment performance in the seven countries of the region, namely, Iraq, Jordan, Kuwait, Lebanon, Oman, Saudi Arabia and the Syrian Arab Republic, where statistical information permits such an analysis, are made with reference to gross fixed investment.[36/] The investment/GNP ratio[37/] is used for appraising investment performance since it relates the volume of investment to the total output of goods and services accruing to a country's citizens and available for allocation among the different end uses, including additions to capital stock. It should be noted, however, that inter-country comparisons of investment performance are hampered by the lack of uniformity with respect to the valuation of the basic data and time coverage.

36/ Such information is not only more readily available, but can also be expected to be more reliable than data on changes in stocks. Thus, Iraq, Oman and the Syrian Arab Republic do not report on changes in stocks. In Jordan, where changes in stocks at the beginning of the last decade were, on average, very small - their ratio to fixed investment rose to 13 per cent in 1964-1966 and reached 46 per cent in 1968-1970, to fall again to 10 per cent in 1972. This sharp rise in the relative importance of changes in stocks reflected the large inflow of refugee aid that has been brought into Jordan following the 1967 War and which were not recorded at all, thus significantly affecting the stocks figures in the national accounts. Additions to stocks in Kuwait represented about 13 per cent of gross fixed investment in 1965-1966, 10 per cent in 1969-1970 and 5 per cent in 1971. In Lebanon, reported changes in stocks are relatively unimportant by the standards of the other countries reviewed. As for Saudi Arabia changes in stocks accounted on the average for about 22 per cent of fixed capital formation in 1968-1970, 7 per cent in 1971 and 3 per cent in 1972.

37/ Except in the Syrian Arab Republic, where the national accounts statistics are reported on a domestic production basis and where, relative to the country's total output, factor income transactions are of minor importance.

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Available information (see table 9) shows that, with the exception of the Syrian Arab Republic and Jordan, where the investment rate relative to the gross product over the second half of the last decade rose by 3 and 1.5 percentage points, respectively, the remaining countries experienced either a decline or a stagnation in their investment rates during the same period. In Iraq, the investment rate fell from an average of 18.6 per cent in 1964-1966 to 16.7 per cent in 1968-1970. Similarly, in Lebanon it dropped from 21.6 per cent to 18.3 per cent during the same interval. In Kuwait, the investment rate fluctuated around 19 per cent.

Significant changes in the investment rate since the beginning of this decade are reported for Oman, Jordan, Kuwait and Saudi Arabia. By 1973, the investment/GNP ratio rose by some 20 percentage points, to 35 per cent in Oman, and by 3 percentage points, to 18 per cent in Jordan, compared with its average level in the period 1968-1970. On the other hand, the investment rate in Saudi Arabia dropped by about 3.5 percentage points, to reach 16.5 per cent during the first two years of the decade, and in Kuwait by 5 percentage points, to stand at 11.7 per cent in 1971.

Expressed as average annual rates of increase, investment trends in the seven countries reviewed (see table 10) ranged from 1 per cent per annum in Oman (1967-1970), to 2.3 per cent in Iraq (1960-1970),[38/] 3.7 per cent in Lebanon (1964-1970), 6.7 per cent

38/ Except in the manufacturing sector, investment in Iraq's main economic branches was depressed or falling during the period reviewed. After some hesitation in 1963 and 1964, gross fixed investment in manufacturing increased rapidly, bringing the average yearly rate of expansion to about 13 per cent in the period 1960-1969. The decline in agricultural investment over the first half of the decade reduced the rate of capital formation in this sector to 4 per cent per annum for the entire period. Investment in mining and quarrying fell steeply. The fall occurred mainly in 1962 and investment in this sector virtually ceased to grow after 1963, remaining around ID 1 million until 1969, compared with ID 22.5 million in 1960 and 1961. Investment in transport, storage and communication also experienced a severe setback which was especially marked during 1967-1969. Looked at from another angle, the adverse investment situation in Iraq has mainly affected construction activities, particularly construction works other than buildings.

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Table 9. Gross fixed investment rates[a]

(Average percentage share)

Oil economies	Investment/GNP ratio	Non-oil economies	Investment/GNP ratio
Iraq		Jordan	
1964-1966	18.6	1964-1966	13.4
1968-1970	16.7	1968-1970	14.9
1971	17.3	1971	14.1
		1972	17.7
		1973*	17.9
Kuwait[b]		Lebanon	
1965-1966	18.7	1964-1966	21.6
1969-1970	18.5	1968-1970	18.3
1971	13.6	1971	18.2
1972	11.7	1972	19.2
Saudi Arabia[c]		Syrian Arab Republic	
1968-1970	20.1	1964-1966	11.8
1971	17.0	1968-1970	15.4
1972	16.5	1971	15.1
		1972	14.9
		1973*	14.2
Oman			
1968-1970	15.2		
1971	34.6		
1972	36.8		
1973*	35.2		

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

*/ Provisional estimates.

a/ Computed with reference to GNP and investment valued at current market prices except in the case of the Syrian Arab Republic where the gross domestic investment rate is based on the gross domestic product valued at constant market prices.

b/ Fiscal years beginning 1 April of year stated.

c/ Hijri fiscal years corresponding to the nearest calendar year stated.

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in Saudi Arabia (1967-1970), 7 per cent in Jordan (1960-1970), 8.2 per cent in Kuwait (1965-1970), and 8.8 per cent in the Syrian Arab Republic (1963-1970). Generally speaking, however, investment was not evenly spread but was rather concentrated over time. The growth of gross fixed capital formation has rapidly accelerated after 1970 in several countries of the region, to reach 55 per cent per annum in Oman, 23 per cent in Jordan, and 16 per cent in Saudi Arabia in the first three years of this decade, and to 16 per cent in Lebanon by 1972. The growth of fixed investment in both Iraq and Kuwait was depressed, at about 2 per cent each, in 1971, and in the latter it dropped by 5 per cent in 1972. In the Syrian Arab Republic, the expansion at an average annual rate of 10 per cent in fixed capital formation between 1970-1973 represented only a slight improvement over performance during the preceding decade. In view of the recent developments affecting the oil industry, it can reasonably be expected that outlays on capital formation in the oil-producing countries will expand rapidly.

It is worth mentioning that investment expenditure by the public sector[39] generally increased during the last decade at much higher rates than private investment, not only in the countries where the system gives the public sector a predominant role, namely, Iraq and the Syrian Arab Republic, but also, and by no means to a lesser extent, in the private-enterprise oriented economies of Jordan, Kuwait, Lebanon and Saudi Arabia. In these

39/ While the distinction between private and public investment is not an economic one, it, nevertheless, has implications of an economic nature. Such implications assume greater significance when over a certain period of time a major shift occurs in the ownership of the means of production, as has been the case in two of the countries under consideration, namely, Iraq and Syria. Moreover, in view of the differences which exist among the countries of the region regarding the relative degree of involvement of the private and public sectors in economic activity, the distinction in question provides an additional insight for a better understanding and appraisal of the growth process in countries of the region.

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Table 10. Growth of gross fixed capital formation[a]

(Annual percentage rates)

A. Oil Economies

	Iraq		Kuwait			Oman				Saudi Arabia		
	1960 to 1970	1971	1965 to 1970	1971	1972	1967 to 1970	1971	1972	1973*	1967 to 1970	1971	1972
otal fixed capital formation	2.3	2.4	8.2	2.0	-4.5	1.0	193	22.1	2.6	6.7	12.9	16.1
rivate fixed capital formation	0.4	5.5	2.5[b]	2.9[b]	-12.9	-3.1	58	-5.6	17.1	0.7[c]	24.9[c]	13.5[c]
ublic fixed capital formation	4.3	-0.2	14.6	1.2	2.3	83.7	1100	46.6	-5.7	15.3	-0.8	19.8
ixed capital formation n:												
Agriculture	5.8	24.9	...	...	...	...	...	...	...	...	...	...
Mining and quarrying	-19.0	36.4	...	...	...	...	...	...	...	...	...	...
Manufacturing	13.0	-7.0	..	...	...	...	...	...	...	...	...	...
Transport, storage and communication	-4.6	3.5	...	...	...	...	...	...	...	...	...	...
Other	3.9	-2.4	...	...	...	...	...	...	...	...	...	...

B. Non-oil Economies

	Jordan				Lebanon			Syrian Arab Republic			
	1960 to 1970	1971	1972	1973*	1964 to 1970	1971	1972	1963 to 1970	1971	1972	1973*
otal fixed capital formation	7.0	21.9	18.0	30.2	3.7	8.9	24.2	8.8	18.3	8.6	-5.0
rivate fixed capital formation	4.0	22.3	0.5	32.7	3.3	10.5	28.4	-4.0	28.3	35.5	-4.6
ublic fixed capital formation	12.0	21.1	51.3	27.0	5.4	1.7	4.0	22.3	14.0	-0.4	-5.3
ixed capital formation n:											
Agriculture	...	...	...	...	...	...	...	8.0	8.6	-5.7	-8.4
Mining & quarrying	...	...	...	...	...	...	...	11.2[d]	76.3[d]	49.3[d]	-18.2[d]
Manufacturing	...	...	...	...	...	...	...				
Transport, storage & communication	...	...	...	...	...	...	...	8.4	-10.4	-24.8	14.3
Other	...	...	...	...	...	...	...	6.4	8.2	-2.9	8.8

ource: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

/ Provisional.

/ Growth rates in monetary terms, except for Iraq and the Syrian Arab Republic where growth rates are in real terms.

/ Private and semi-private fixed investment.

/ Covers investment of the private sector and government enterprises (viz., PTT, Saudi Airlines, Railroad corporation and Petromin).

/ Includes investments in basic utilities.

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six countries, where statistics on the distribution of gross fixed investment between the private and public sectors are available, there has been a significant, though widely varying, increase in the proportion of total investment undertaken by the public sector and, correspondingly, a decrease in that of the private sector. Available information reflects a faster growth rate in private fixed investment outlays, relative to public investment expenditures, in Saudi Arabia, Lebanon and the Syrian Arab Republic, since 1970. In the latter country, the rapid expansion in private investment was realized under the impetus of the economic liberalization measures introduced since late 1970.

B. Structure and composition of fixed capital formation

A common factor underlying the shift in favour of public investment is to be found in the desire of the countries in question to provide the infrastructure necessary for accelerating their rate of economic and social development. In Iraq and the Syrian Arab Republic, however, the shift has been influenced, to a large extent, by the determined effort of their Governments to extend their control over the economy and the means of production which culminated in the nationalization measures of the mid-sixties. These measures, together with political uncertainties, have had a depressing effect on private investment, causing it to decline in both countries.

The most dramatic increase in the relative importance of public investment occurred in the Syrian Arab Republic where the contribution of the public sector to total fixed investment rose from an average of about 38 per cent in 1963-1965 to 66 per cent in 1968-1970 (see table 11). The public sector's share, however, has fallen somewhat since the beginning of this decade to around 60 per cent of the total in 1972-1973. The increase in the share of

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public investment was much less dramatic in Iraq, from 45 per cent of the total in 1960-1962 to 53 per cent in 1968-1970. In Jordan, public investment increased from an average of 32 per cent of fixed capital formation to 41 per cent in the first half and to 43 per cent by the end of the last decade. A sharp dip in the relative importance of public investment in 1971 was made good during the two years which followed. In Saudi Arabia, the share of fixed investment attributed to the public sector, which has risen considerably over the past decade, declined by 6-7 percentage points in 1970-1972. A small increase has also been achieved in the share of public investment in Lebanon, bringing it to around 19 per cent of the total in 1968-1970. This trend, however, was reversed and by 1972 the relative share of the public sector was only 14 per cent of total investment. In Kuwait, the relative importance of public investment, compared to that undertaken in the private and semi-private (mixed) sector rose from 40 to 55 per cent between 1965 and 1971, and further to 59 per cent in 1972.

Information on the sectoral distribution of fixed capital formation is available only for Iraq and the Syrian Arab Republic. This shows that in Iraq the share of agriculture in the total tended to decline in the first half of the last decade, but that subsequent improvements raised this share to 13 per cent in 1968-1970, and to 15 per cent in 1971, as compared with 10 per cent in 1960-1962. Investment in mining and quarrying, mostly in the oil sector, which accounted for about 13 per cent of total fixed investment in Iraq in the early sixties, declined to 2 per cent by the end of the decade, but rose again to 5 per cent in 1971. Similarly, the share of investment in transport, storage and communication fell from 23 to 13 per cent in the same period. In marked contrast, the share of the manufacturing sector in total fixed investment increased from 12 to 25 per cent over the decade, reflecting a combination of a rapid growth in this sector and a retarded rate in most of the other branches. In 1971, it constituted 21 per cent of the total.

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Table 11. Structure and composition of investment in fixed capital formation[a]

(Average percentage shares)

A. Oil Economies

	Iraq				Kuwait				Saudi Arabia		
	1960-62	1964-66	1968-70	1971	1965-67	1968-70	1971	1972	1968-70	1971	1972
Total fixed capital formation	100	100	100	100	100	100	100	100	100	100	100
Private fixed capital formation	55	46	47	46	60[b]	50[b]	45[b]	41	52[c]	59[c]	58[c]
Public fixed capital formation	45	54	53	54	40	50	55	59	48	41	42
Fixed capital formation in:											
Agriculture	10	9	13	15	...	...	...	...	...	...	...
Mining and quarrying	13	1	2	5	...	...	...	...	...	...	...
Manufacturing	12	20	25	21	...	...	...	...	...	...	...
Transport, storage and communication	23	19	13	14	...	...	...	...	...	...	...
Ownership of dwellings	19	22	19	18	...	...	...	...	...	...	...
Other	23	29	28	27	...	...	...	...	...	...	...
Fixed capital formation in:											
Machinery and equipment	28	35	41	42	46	...	...	...	23	25	24
Transport equipment	9	7	8	10	3	...	...	...	11	11	10
Other	19	28	33	32	43	...	...	...	12	14	14
Construction	72	65	59	58	54	...	...	...	77	75	76
Residential buildings	19	21	19	18	...	...	...	...	22	24	23
Non-residential buildings	14	17	16	16	...	...	...	...	8	6	7
Other	39	27	24	24	...	...	...	...	47	45	46

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Table 11. Structure and composition of investment in fixed capital formation[a] (continued)
(Average percentage shares)

B. Non-oil Economies

	Jordan						Lebanon				Syrian Arab Republic				
	1960-62	1964-66	1968-70	1971	1972	1973*	1964-66	1968-70	1971	1972	1963-65	1968-70	1971	1972	1973*
Total fixed capital formation	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Private fixed capital formation	68	59	57	66	63	57	83	81	83	86	62	34	33	41	41
Public fixed capital formation	32	41	43	34	37	43	17	19	17	14	38	66	67	59	59
Fixed capital formation in:															
Agriculture	...	...	...	...	...	...	...	...	...	...	17	16	24	21	21
Mining and quarrying	...	...	...	...	...	...	...	...	...	...	22[d]	27[d]	29[d]	40[d]	34[d]
Manufacturing	...	...	...	...	...	...	...	...	...	...					
Transport, storage and communication	...	...	...	...	...	...	...	...	...	...	20	21	13	9	11
Ownership of dwellings	...	...	...	...	...	...	...	...	...	...	24	23	23	19	20
Other	...	...	...	...	...	...	...	...	...	...	17	13	11	11	14
Fixed capital formation in:															
Machinery and equipment	33	24	24	42	24	...	34	37	...	...	41	46	40	45	46
Transport equipment	9	9	8	30	11	...	...	...	...	...	10	13	4	8	12
Other	24	15	16	12	13	...	...	...	...	...	31	33	36	37	34
Construction	67	76	76	58	76	...	66	63	...	...	59	54	60	55	54
Residential buildings	31	30	30	24	32	...	...	...	...	...	24	23	22	19	20
Non-residential buildings	5	7	3	2	3	...	...	...	...	...	12	6	6	5	7
Other	30	39	43	32	41	...	...	...	...	...	22	25	32	31	27

Source: United Nations Economic Commission for Western Asia, based on data compiled from national sources.

*/ Provisional.

a/ Computed with reference to gross domestic fixed capital formation at current market prices except for Iraq and the Syrian Arab Republic, where the gross domestic fixed capital formation figures are at 1962 and 1963 market prices, respectively.

b/ Private and semi-private fixed investment.

c/ Includes investments by government enterprises (viz., PTT, Saudi Airlines, Railroad Corporation and Petromin).

d/ Includes investments in basic utilities.

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In the Syrian Arab Republic, investment in agriculture declined slightly from about 17 per cent in 1963-1965 to 16 per cent in 1968-1970, but recovered in the subsequent three years to account for 21-22 per cent of the total. On the other hand, the combined share of investment in manufacturing, mining and quarrying and basic utilities showed a significant improvement, rising from an average of 22 per cent in 1963-1965 to close to 27 per cent in 1968-1970; investments attributed to these sectors have continued to rise sharply, reaching 40 per cent of all fixed investment outlays in 1972.

Distinguishing fixed investment by broad types of assets acquired, it appears that, in the five countries, namely, Iraq, Jordan, Lebanon, Saudi Arabia and the Syrian Arab Republic, for which available statistical series permit such a distinction, investment allocations during the last decade have largely gone to construction, including residential and non-residential buildings and public works, as against investment in machinery and equipment. However, with the exception of Jordan, where the share of machinery and equipment in total fixed investment fell from 33 to 24 per cent during the decade, increases ranging from 13 percentage points in Iraq to 3 and 4 percentage points in the case of Lebanon and the Syrian Arab Republic, respectively, were recorded in the share of machinery and equipment (see table 11). On the average, there seems to have been no significant departure from this pattern since the start of this decade.

C. The efficiency of investment

The implications of capital formation for the expansion of productive capacity depends not only on the volume of investment but also on the effectiveness of its use. Given the scarcity of investment funds in most developing countries, including a number of countries in the region, the maximization of the efficiency of investment assumes special importance in the context of development efforts.

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The measure commonly used to reflect the efficiency of investment is known as the incremental capital/output ratio (ICOR) or, alternatively, as the marginal capital/output ratio (MCOR).[40/]

The efficiency of investment is influenced by its distribution among different types of assets and by the share in the total of renewals and replacements. New investment in construction will generally have a lower output-growth potential in the short and medium-term relative to investment in machinery and equipment, which is more closely tied with production and whose contribution to output is more condensed in time. Residential construction, which generally absorbs an important part of fixed investment, contributes directly very little to expanding the productive capacity of the economy. Investment in infrastructure tends to exert its influence on production over a long period of time, whereas its capital requirements are relatively large. Another factor which tends to reduce further the growth potential of investment in construction arises from the fact that "much construction is undertaken by public authorities in connexion with activities whose measured output is notional or even non-existent".[41/]

40/ It should be noted that the ICOR furnishes no more than a first approximation of the efficiency of a given volume of investment, "for the link between investment and production is by no means simple and direct .. The capital/output ratio is likely to be more useful as a long-term than as a short-term indicator .. More useful as a check on investment policy is a systematic review of its sectoral composition and results. At the sectoral level, the connexion between one year's investment and the next year's output is generally more clearly discernible than it is at the more aggregative level. A capital/output ratio by sector is, therefore, a potentially more helpful measuring rod of performance (see United Nations, World Economic Survey, 1969-1970, op.cit., p.67).

41/ See T.P. Hill, "Growth and Investment According to International Comparisons", The Economic Journal (June 1964), p. 298.

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With respect to investment in renewals and replacement, the question revolves around the extent to which such investment provides an opportunity for taking advantage of technical progress. The distribution of investment for replacement between construction and machinery and equipment becomes irrelevant when replacement is of the pure and simple kind and is not associated with any changes in production methods. "In practice, however, replacement investment is much more likely to act as a vehicle for technical progress when it consists mainly of machinery and equipment than when it is mostly construction". 42/ Thus, in the case of both new and replacement investment, the growth potential of investment will tend to be higher the greater the share of machinery and equipment in the total, and lower the more preponderant is the share of construction.

A second major factor influencing the investment-output relationship is demand. This is particularly true of the industrial sector of many developing countries where the persistence of excess capacity is a common phenomenon and, consequently, output is highly responsive to changes in the level of demand. The same is generally true of the bulk of export commodities whose output can usually be expanded relatively rapidly in response to higher world demand with no, or only little, additional investment incurred.

The output-investment relationship is also influenced by the sectoral distribution of output and investment. In this connexion, it is worth mentioning that the importance of weather conditions in determining agricultural output in some countries of the region, which means that output in one period might have little or no relation with investment incurred during the same or in a preceding period, and the important contribution that the oil sector makes to output in some of these countries and the high elasticity of output to investment in this sector will distort inter-country comparisons of overall levels of investment efficiency.

42/ *Ibid.*

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Besides the above enumerated influences, apparent inter-country differences in the efficiency of investment could have at their origin differences in the relative importance of increases in employment levels and in the suitability of the technology embodied in the investment to the prevailing resource endowments. Moreover, it should be emphasized that mere availability of resources as such will not guarantee their effective use. "Allocation problems are also involved as well as the supply of complementary resources, particularly those that have to be obtained abroad, and there are many organizational and institutional factors which can enhance or inhibit productivity".43/

A comparison of the rate of growth in GDP and the share of gross domestic capital formation in GDP in six countries of the region, namely, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic, reveals a weak relationship between those two variables in the period 1960-1970 (see table 12). Thus, Saudi Arabia, with an annual rate of growth of 9.9 per cent invested a share of its GDP (16.5 per cent) equal to that of Iraq whose GDP grew by only 6.2 per cent per annum. Similarly, Lebanon, with an investment/GDP ratio of 21.3 per cent, experienced a growth rate of only 4.2 per cent.

Table 12. Investment rates, growth of output, and incremental capital/output ratios, 1960-1970

	(1) Annual rate of growth of GDP (per cent)	(2) Gross domestic Capital formation as a percentage of GDP	(3) = (2)÷(1) Incremental Capital/output ratio (ICOR)
Saudi Arabia	9.9	16.5	1.7
Jordan	6.3	17.9	2.9
Iraq	6.2	16.5	2.6
Kuwait	6.1	14.2	2.3
Syrian Arab Republic	5.7	14.8	2.6
Lebanon	4.2	21.3	5.0

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

43/ United Nations, World Economic Survey, 1969-1970, op.cit., p.68.

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Inter-country differences in the degree of responsiveness of output to investment are reflected in their ICORs (see table 12). While it is very possible that some of those observed differences could merely be a reflection of inaccuracies in the measurement of output and investment, there is no doubt that, in large measure, the differences have their origin in the kind of influences outlined above.

The ICOR ranges from 1.7 in Saudi Arabia to 2.3 in Kuwait, 2.6 in each Iraq and the Syrian Arab Republic, 2.9 in Jordan and 5 in Lebanon. The generally much lower ICORs in the oil economies are to be expected, given the high degree of elasticity of output to investment in the oil sector. The high ICOR in Iraq - relative to that in Kuwait and Saudi Arabia - is in part a reflection of the virtual cessation of investment in the oil sector after 1962 and the consequent slow growth in oil production and exports, and the relatively lower contribution of oil to total output, compared with the situation in the other two oil economies considered. The increased contribution to total output which the oil sector has been making since 1968 has helped to keep Syria's ICOR relatively low despite stagnation in agricultural production. Moreover, the composition of fixed capital formation in the Syrian Arab Republic has tended to shift in favour of the productive sectors and to include a higher share of machinery and equipment. The high share of construction industry in investment in Lebanon and Jordan partly explains their high ICORs.

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IV. MOBILIZATION OF FINANCIAL RESOURCES AND FINANCING OF GROSS DOMESTIC CAPITAL FORMATION

Economic growth depends to a large extent on the ability of an economy to generate resources at a rate higher than that at which it consumes available resources, so that adequate savings are generated to finance the capital formation necessary for the expansion of its productive capacity. If domestic savings are not forthcoming in adequate volume to finance the desired level of capital formation, they can, or should, be supplemented by external resources.

An analysis of savings efforts in seven countries of the region, where the relevant statistics are available (see table 13), shows that average gross national savings of these countries differed widely, ranging from very high proportions of savings relative to gross national product in the oil countries, to low proportions in the non-oil countries. In varying degrees, Iraq, Kuwait, Oman and Saudi Arabia have already realized savings rates that are higher than the Second Development Decade target rate for developing countries, i.e., 20 per cent of the gross product, having saved, on the average, the equivalent of 21 per cent, 46 per cent, 62 per cent and 34 per cent of their respective gross national products in the last two to three years of the preceding decade. In contrast, the three non-oil countries considered have savings rates that are still way below the Decade's target, amounting on the average to 12 and 14 per cent in the case of the Syrian Arab Republic and Lebanon, respectively, and a negative rate of 3 per cent in the case of Jordan, during the same period.

The savings rate has risen further in Saudi Arabia and Kuwait to 46 and 52 per cent of GNP (1972) respectively. By contrast, in Oman, the savings rate was more than halved by 1973, mainly under the impact of rising defence expenditures as well as recurrent outlays on education, health and housing. In Iraq, the savings rate was probably adversely affected by the little growth achieved in the country's total output in 1972, but is likely to have recovered in 1973

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with the sharp rise in oil production and revenues. It is also worth noting the steady rise in the Syrian Arab Republic's savings rate to 16 per cent by 1973 and in that of Lebanon, to 15-16 per cent in the period 1971-1972.

As can be observed from table 13, Saudi Arabia and the Syrian Arab Republic have realized, since the beginning of the Second Development Decade, increases in their savings rates that are substantially above the Decade's overall target of 0.5 per cent per annum in the savings/output ratio suggested for all developing countries.

The private sector has been by far the larger contributor to national savings in the six countries for which information is available, with the exception of Kuwait, in the period 1968-1970 (see table 14). In Jordan, the private sector contributed all the savings accruing in the economy, while the public sector has been dissaving and has been heavily dependent on external aid. In the Syrian Arab Republic, Lebanon, Saudi Arabia, Iraq and Kuwait, the private sector accounted for 90 per cent, 74 per cent, 68 per cent, 64 per cent and 50 per cent, respectively, of total savings generated in the economy. In Iraq and the Syrian Arab Republic, however, close to 50 and 60 per cent, respectively, of the savings generated in the private sector were used to finance capital formation, the rest being offset by a net outflow of private capital. By contrast, in Lebanon, the inflow of private capital financed about 30 per cent of private fixed capital formation during the period 1968-1970. The relative contribution of the private sector to total savings generated in the economy in the first two years of the present decade has remained highly stable in Lebanon, increased substantially in the Syrian Arab Republic, and has declined appreciably in Saudi Arabia. Information relating to 1971 shows a sharp decline in the relative position of private savings in the total in Iraq, and a small improvement in the case of Kuwait.

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Table 13. National savings rates relative to gross national product (GNP)

1964-1973

(in per cent)

Countries	GNP	Total savings 1964-66	Total savings 1968-70	Total savings 1971	Total savings 1972	Private savings 1964-66	Private savings 1968-70	Private savings 1971	Private savings 1972	Public savings 1964-66	Public savings 1968-70	Public savings 1971	Public savings 1972
Oil economies													
Iraq	100	20	21	23	...	15	14	8	...	5	7	15	...
Kuwait	100	49 a/	46 b/	51	52	23 a/	23 b/	28	...	26 a/	23 b/	23	...
Oman	100	...	62	54	45	30	...	...	...	...	...	...	...
Saudi Arabia	100	...	34	41	46	...	23	32	21	...	11 c/	9 c/	25 c/
Non-oil economies													
Jordan	100	1	-3	-4	-1	6	14	9	15	-5	-17	-13	-16
Lebanon	100	12	14	16	15	9	10	12	11	3	4	4	4
Syrian Arab Republic	100 d/	10	12	12	14	8	11	12	15	2	1	-	-1

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

Note: In the case of Iraq, Oman and the Syrian Arab Republic, which do not report on changes in stocks, the savings rates shown in the table will differ from realized savings rates to the extent that stocks have changed.

a/ 1965-1966

b/ 1969-1970

c/ Excludes savings of: PTT, Saudi Airlines, Railroad Corporation and Petromin which are included in private savings.

d/ Computations made with reference to gross domestic product at constant market prices.

In analyzing the relative contribution of internal and external sources of financing to gross domestic fixed capital formation in the countries under consideration, it is immediately evident that national savings exceed capital formation by a substantial margin in the oil economies and fall short of it in the non-oil economies (see table 14.). Thus, in Kuwait, Oman, Saudi Arabia and Iraq, savings exceeded capital formation by 150 per cent, 300 per cent, 70 per cent and 27 per cent, respectively, during 1968-1970[44/]. With the exception of Oman where the positive savings-investment gap narrowed rapidly between 1970 and 1972, and turned negative by 1973, these positions have been further accentuated since the start of this decade. Moreover, the prospects of higher savings rates resulting from increasing oil revenues during the rest of the 1970's can be expected to accentuate the positive savings-investment gap, notably in Kuwait, Saudi Arabia and the United Arab Emirates, and to bring to the forefront of development issues the need for finding new investment opportunities and improving the absorptive capacity of the economies concerned, and questions relating to the composition and geographic distribution of their foreign assets holdings.

With respect to the non-oil economies, Jordan exhibits the highest degree of dependence on the inflow of external resources to finance capital formation. This country has been persistently experiencing negative savings rates which have had to be covered by an inflow of resources from the outside world in order to meet the financial requirements of investment, as well as, current government expenditures. In both Lebanon and the Syrian Arab Republic, national savings financed around 80 per cent of capital formation during 1968-1970; since then the savings/investment ratio has risen sharply in the latter.

44/ It is worth mentioning that whereas, in both Kuwait and Saudi Arabia, the surplus of savings over investment was associated with relatively rapid rates of growth in capital formation, in Iraq there was only a nominal expansion in investment in the period considered.

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Table 14. Financing of gross fixed capital formation, 1968-1973
(Millions of 1970 U.S. dollars; in per cent)

	A. Oil Economies										
	Iraq		Kuwait		Oman				Saudi Arabia		
	1968-70	1971	1969-70	1971	1968-70	1971	1972	1973	1968-70	1971	1972
	(In millions of dollars)										
Gross domestic fixed capital formation	488	615	452	437	28	92	112	115	565	652	756
Private	231	284	197	196	25	43	41	48	292	384	436
Public	257	331	255	241	3	49	71	67	273	268	320
Gross national savings	619	804	1128	1644	113	145	137	98	958	1563	2086
Private	396	287	562	890	...	...	...	...	653	1210	961
Public	223	517	566	754	...	...	...	...	305	353	1125
Resource inflow (+) or outflow (-)	-131	-189	-676	-1207	-85	-53	-25	17	-393	-911	-1330
Private	-165	-3	-365	-694	...	...	...	...	-361	-826	-525
Public	34	-186	-311	-513	...	...	...	...	-32	-85	-805
	(in per cent)										
Gross domestic fixed capital formation	100	100	100	100	100	100	100	100	100	100	100
Private	47	46	44	45	89	47	37	41	52	59	58
Public	53	54	56	55	11	53	62	59	48	41	42
Gross national savings	100	100	100	100	100	100	100	100	100	100	100
Private	64	36	50	54	...	...	...	...	68	77	46
Public	36	64	50	46	...	...	...	...	32	23	54
Ratio of savings to total investment	127	131	250	376	404	158	122	85	170	240	276
Private	81	47	125	204	...	...	...	...	116	186	127
Public	46	84	125	173	...	...	...	...	54	54	149
Ratio of inflow(+) or outflow (-) of resources to total investment	-27	-31	-150	-276	-304	-58	-22	+15	-70	-140	-176
Private	-34	-1	-81	-159	...	...	...	...	-64	-127	-70
Public	+7	-30	-69	-117	...	...	...	...	-6	-13	-106

Table 14. Financing of gross fixed capital formation, 1968-1973 (continued)
(Millions of 1970 U.S. dollars; in per cent)

	B. Non-oil economies										
	Jordan				Lebanon			Syrian Arab Republic			
	1968-70	1971	1972	1973	1968-70	1971	1972	1968-70	1971	1972	1973
					(in Millions of dollars)						
Gross domestic fixed capital formation	91	93	120	132	267	314	387	212	244	244	210
Private	52	61	75	75	217	260	331	73	80	99	86
Public	39	32	45	57	50	54	56	139	164	145	124
Gross national savings	-16	-26	-8	18	209	281	307	168	193	227	235
Private	87	63	101	...	154	204	224	152	192	240	...
Public	-103	-89	-109	...	55	77	83	16	1	-13	...
Resource inflow (+) or outflow (-)	107	119	128	114	58	33	80	44	51	17	-25
Private	-35	-2	-26	...	63	56	107	-73	-112	-141	...
Public	142	121	154	...	-5	-23	-27	123	163	158	...
					(in Per cent)						
Gross domestic fixed capital formation	100	100	100	100	100	100	100	100	100	100	100
Private	57	66	63	57	81	83	86	34	33	41	41
Public	43	34	37	43	19	17	14	66	67	59	59
Gross national savings				100	100	100	100	100	100	100	100
Private				...	74	73	73	90	99	106	...
Public				...	26	27	27	10	1	-6	...
Ratio of savings to total investment	-17	-28	-7	14	78	89	79	79	79	93	112
Private	96	67	84	...	57	65	58	71	78	98	...
Public	-113	-95	-91	...	21	24	21	8	1	-5	...
Ratio of inflow (+) or outflow (-) of resources to total investment	+117	128	107	86	22	11	21	21	21	7	-12
Private	-39	-1	-21	...	24	18	28	-37	-46	-58	...
Public	+156	129	128	...	-2	-7	-7	58	67	65	...

For source and footnotes see table 13.
Note: The total outflow (inflow) of resources will fall short of (exceed) the figures shown in the table to the extent that stocks have increased, and will exceed (fall short of) the figures in question to the extent that stocks have declined.

V. THE EXTERNAL SECTOR: MAJOR TRENDS AND PRINCIPAL FEATURES

Foreign trade plays a crucial role in the economies of the region. Directly, production for export provides by far the largest single source of income in the oil economies. Indirectly, the contribution of exports to the development process in these countries permeates all aspects of economic activity; exports not only constitute the main source of foreign exchange, but are also at the basis of the bulk of public revenue and, consequently, the major determinant of the level of imports and public sector activity. Production of goods and services for export is also a significant determinant of income levels in the non-oil economies. Moreover, export proceeds, with some exceptions, contribute an important part of the foreign exchange with which these countries large and growing demand for imports is financed.45/

Insufficient diversification of their economic structure, narrowness of the production base and the need to build up productive capacity, render the countries of the region heavily dependent on imports. Moreover, these countries also need, in varying degrees, substantial imports of intermediate products, foodstuff and manufactured consumers' goods to supplement domestic supplies towards meeting a rapidly rising level of demand. Some countries - notably the oil-producing and the less developed ones - also rely very heavily on foreign labour imports to make up for their acute deficiency in skilled manpower.

45/ The significance of exports for the countries of the region, however, goes beyond their quantitative importance as a source of income, foreign exchange and government revenue. Production for the world market provides them with an opportunity to overcome a major obstacle to industrial development, namely, the smallness of their domestic markets. Such production has to withstand the test of competition from other suppliers. This, *inter alia*, implies a need to observe more strict efficiency criteria and rational production techniques than is likely to be the case with production which is oriented towards meeting local demand.

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Thus, developments affecting exports and supplementary sources of foreign exchange, and imports and other competing claims, is of great concern to the countries of the region.

A. Overall export and import trends

Both, the value and volume of trade of the countries in the region, as a whole, have expanded very rapidly since the beginning of the nineteen seventies (see table 15). Compared with an average annual rate of growth of 9 per cent over the last decade, the aggregate value of merchandise exports from the region rose by 37 per cent per annum in the period 1970-1973. At the same time, the annual growth rate of imports accelerated from 6.3 to 21 per cent. Both, the oil and non-oil countries contributed to this rapid expansion of trade. Trends in exports and imports, however, differed significantly as between the two groups of countries, and among countries within each group. Whereas total exports and imports of the oil-producing countries expanded by 38 and 18 per cent per annum between 1970 and 1973, respectively, the corresponding flows of the non-oil countries in the region recorded growth rates averaging between 20 and 25 per cent during the same period.

With the exception of the Democratic Yemen - where, both, exports and imports continued to fall - significant positive deviations from past trends were recorded in the rest of the region. The average annual rate of expansion of exports during the first three years of the present decade as compared with the nineteen sixties, accelerated from less than 6 per cent to 28 and 32 per cent in Iraq and Kuwait, respectively, from 12 to 33 per cent in Saudi Arabia, from 12 to 20 per cent in Jordan, from 19 to 36 per cent in Lebanon, from about 4 to 19 per cent in the Syrian Arab Republic, and from -11 to 23 per cent in Oman. The rapid increase in imports of the non-oil economies, and of Iraq and Oman among the oil economies, should also be noted. However, with the possible exception of the small oil-producing countries and of Lebanon,

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the absolute level of imports per head remains low in the region,46/ highlighting the scope and need for further expansion. In the non-oil economies, the scope for expanding imports will continue to be mainly a function of growth in their foreign exchange earnings and of import-competing claims. Given the expected continuation of high levels of export earnings, the pace of import expansion in the oil economies would seem to depend mainly on their capacity to absorb additional imports. The present low level of imports per head in several of these countries is indicative in this respect.

Attaining the overall growth target of at least 6 per cent per annum in the gross product of developing countries as a whole during the second Development Decade implies, *inter alia*, an average annual expansion of "somewhat less than 7 per cent in their imports and somewhat more than 7 per cent in exports". Indications are47/ that, for the region as a whole, these targets were exceeded by a significant margin in the first three years of the Decade. The fast growth in exports from the region recorded during this period was the result of the association of high prices with largely increased quantities. The region's export quantum index increased at an average annual rate of 15 per cent between 1970 and 1973, compared with 9 per cent over the second half of the last decade.

46/ In the period 1971-72, the average level of imports per head ranged from $1445 in Qatar to $824 in Kuwait, $262 in Lebanon, $139 in Oman, $120 in Saudi Arabia, $112 in the Democratic Yemen, $99 in Jordan, $70 in each of Iraq and the Syrian Arab Republic, and $10 in Yemen.

47/ Based on trade unit value and quantum indecies relating to the "Asian Middle East" region which includes in addition to the countries served by ECWA, Cyprus, Iran and Turkey (see United Nations, *Monthly Bulletin of Statistics*, October 1974).

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Table 15. Average annual variations in the value of exports and imports,* 1961-1970 and 1970-1973

(in per cent)

Country	Exports			Imports		
	1961-70 a/	1970-72	1970-73**	1961-70 b/	1970-72	1970-73**
Regional total	9.0	35.0	37.0	6.3	20.5	21.0
Oil economies	9.5	37.0	38.0	7.8	23.0	18.0
Bahrain c/	11.7	18.0	...	11.0	16.5	...
Iraq	5.5	11.5	28.0	2.9	18.4	21.0
Kuwait	5.9	35.0	32.0	12.4	12.9	18.6
Oman c/	-11.1	5.2	23.0	15.4	125.0	100.0
Qatar	5.8	39.7 d/	...	-2.0	47.0	...
Saudi Arabia	12.1	50.0	33.0	12.1	28.0	42.0
United Arab Emirates	...	...	...	...	...	...
Abu Dhabi	...	22.0 d/	...	...	55.0	...
Dubai c/	21.9	27.0	31.0	34.1	29.0	43.0
Non-oil economies	3.9	14.4	20.5	4.2	16.5	25.0
Democratic Yemen	-5.0	-14.0	-6.1	-3.0	-13.9	-5.4
Jordan	11.8	18.8	20.0	4.8	20.5	22.0
Lebanon	19.3	33.0	36.0	5.9	22.0	35.0
Syrian Arab Republic	3.8	11.9	18.6	6.5	15.6	18.6
Yemen	...	15.5	39.0	...	60.0	55.0

Source: United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

* Based on current dollar values of trade.

** Provisional estimates.

a/ Except for Bahrain and Saudi Arabia (1962-70), Oman (1964-70), Qatar and Dubai (1966-70).

b/ Except for Bahrain and Saudi Arabia (1962-70), Oman and Dubai (1964-70) and Qatar (1966-70).

c/ Oil and oil products are excluded from the trade of Bahrain and from exports of Oman and Dubai.

d/ (1970-71).

At the same time, average export prices, which remained virtually unchanged during the nineteen sixties, rose by 17-18 per cent per annum. These price gains, however, seem to have been concentrated mainly in the oil economies with the exception of the Syrian Arab Republic which reported similar rates of price increases. The rise in Syrian export prices, however, was associated with some decline in the quantum of export prices, whereas, in Jordan the export quantum index rose at an annual rate of 16 per cent between 1970 and 1973, and in Lebanon by 27 per cent during the period 1970-1972.

Notwithstanding the rise in international prices and its adverse effects on the purchasing power of exports, the rise in the quantum of imports, for the region as a whole,[48/] between 1970 and 1973 remained quite substantial at 13 per cent per annum, compared with 7 per cent during the second half of the last decade.

The acceleration in the growth of exports from the oil economies, during the first three years of the current decade, should be viewed mainly against the sharp rise in crude oil prices since February 1971, following a decade of almost complete price stagnation. Higher prices were associated with rapidly increasing production in Iraq,[49/] Qatar, Saudi Arabia and the United Arab Emirates, and with declining or slowly growing production in the remaining oil-producing countries. Variations in the level of agricultural output continued to be a major factor influencing the volume of trade in the non-oil economies, as well as the level of non-oil trade in Iraq. In Lebanon, however, the expansion in exports has been propelled by the rapid growth recorded in exports of industrial products, whereas in

48/ Ibid.

49/ Notwithstanding a 13 per cent decline in output in 1972 as a result of strained relations between the Iraqi Government and the international oil companies which culminated in the nationalization of Iraq Petroleum Company (IPC) in June of that year.

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the Syrian Arab Republic the record agricultural harvest of 1972 and the continued fast rise in the value of fuel exports account for the good export performance. This rapid expansion in exports has been allowed to be reflected in increased imports in both Iraq and the Syrian Arab Republic where the import trade is under the control of the public sector. The trade of both Lebanon and of Jordan, has been adversely affected by the intermittant closure of the Syrian-Lebanese border. In addition trade in these two countries suffered along with that of the Syrian Arab Republic from the disruption caused by the War with Israel in October 1973. In the Democratic Yemen, the reduced level of operations in the refinery - where the bulk of the country's exports originate - explains the fall in the level of exports.

The recent developments in the export and import trade of countries in the region have tended to reinforce the positive trade balances in the oil economies, and to accentuate the trade deficits in the non-oil economies (see table 16). Thus, the combined surplus of the oil economies rose from an average of about $4 billion in 1968-1970, to $10.1 billion in the period 1971-1973, while the overall trade deficit of the non-oil economies expanded from $0.75 to $1.19 billion, during the same period.

The substantially fast growth in merchandise exports relative to imports, reflecting a rise in the ratio of exports to imports in the oil economies from an average of 2.9 in the period 1968-1970, to 4.1 in 1971-1973 (see table 17), has been largely due to the impressive increases recorded in the export/import ratio of Saudi Arabia, Kuwait and the United Arab Emirates. Iraq's export/import ratio, however, registered a small decline during the same interval. On the whole, the relationship between exports and imports in the non-oil economies has changed only slightly in recent years, with the export/import ratio averaging 0.4 in the period 1971-1973.

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Table 16. Average level of exports, imports and trade balances,* selected periods
(In millions of current US dollars)

Country	Exports (f.o.b.)				Imports (c.i.f.)				Trade balance			
	1961-63[a]	1968-70[b]	1971-72	1971-73	1961-63[a]	1968-70[b]	1971-72	1971-73	1961-63[a]	1968-70[b]	1971-72	1971-73
Regional total	3,632	6,642	11,954	14,194	2,192	3,394	4,740	5,281	1,440	3,248	7,214	8,913
Oil economies	3,217	6,102	11,274	13,401	1,232	2,105	3,066	3,295	1,985	3,997	8,208	10,106
Bahrain[c]	23	44	44	...	67	133	224	...	-44	-89	-180	...
Iraq	712	1,061	1,449	1,731	363	451	704	768	349	610	745	963
Kuwait	1,034	1,544	2,743	3,092	286	627	738	839	748	917	2,005	2,253
Oman[c]	...	1	1	1	...	25	133	171	...	-24	-132	-170
Qatar	...	228	...	...	...	81	128	...	...	147	...	...
Saudi Arabia	1,021	2,150	4,672	5,653	312	667	971	1,312	709	1,483	3,701	4,341
United Arab Emirates :	...	...	...	...	...	...	...	...	...	...	...	...
Abu Dhabi	...	441	...	...	...	99	140	...	...	342	...	...
Dubai[c]	...	21	36	43	...	185	289	390	...	-164	-253	-347
Non-oil economies	415	539	593	794	960	1,289	1,674	1,987	-545	-750	-1,081	-1,193
Democratic Yemen	193	133	107	112	251	207	154	159	-58	-74	-47	-47
Jordan	17	38	40	46	129	178	241	272	-112	-140	-201	-226
Lebanon	51	171	304	368	358	540	763	971	-307	-369	-459	-603
Syrian Arab Rep.	155	194	224	263	222	343	458	503	-67	-149	-234	-240
Yemen	...	4	4	5	...	34	58	81	...	-30	-54	-76

Source : United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

The (-) sign signifies a deficit.

* "general" trade for Kuwait, The Democratic Yemen and the United Arab Emirates; and "special" trade for the remaining countries.

a/ Except for Bahrain and Saudi Arabia (1962-63).
b/ Except for Abu Dhabi and Yemen (1969-70).
c/ Oil and oil products are excluded from the trade of Bahrain and from the exports of Oman and Dubai.

Table 17. Export/import ratios, selected periods

Country	1961-63 a/	1968-70 b/	1971-72	1971-73
Regional total	1.66	1.96	2.52	2.69
Oil economies	2.61	2.90	3.68	4.07
Iraq	1.96	2.35	2.06	2.25
Kuwait	3.62	2.42	3.72	3.68
Qatar	...	2.81	...	...
Saudi Arabia	3.27	3.22	4.81	4.31
Non-oil economies	0.43	0.42	0.35	0.40
Democratic Yemen	0.77	0.64	0.69	0.70
Jordan	0.13	0.21	0.17	0.17
Lebanon	0.14	0.32	0.40	0.38
Syrian Arab Republic	0.70	0.56	0.50	0.52
Yemen	...	0.12	0.07	0.06

Source : United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

a/ Except for Saudi Arabia (1962-63).

b/ Except for Yemen (1969-70).

It should be noted, however, that among this group of countries only Lebanon has experienced a steady rise in its export/import ratio over an extended period. Fluctuations in the export/import ratio of the remaining countries have been associated with stagnant or falling ratios.

The year-to-year variations in the value of the region's trade during the last decade have shown a considerable degree of irregularity 50/ (see table 18). These annual variations show a much wider degree of dispersion around the average rate in the trade of the non-oil economies, relative to that of the oil economies. In both country groupings, however, the degree of dispersion is higher for imports than for exports, except in the case of the Syrian Arab Republic. At the country level, the Democratic Yemen, the Syrian Arab Republic, Iraq and Jordan experienced a highly irregular pattern of trade expansion relative to the situation of Lebanon, Kuwait and Saudi Arabia, where trade followed a much smoother pattern of development.

B. Trade diversification

The International Development Strategy puts considerable emphasis on the objective of diversifying the export trade of developing countries, both in terms of commodity composition as well as geographical concentration. Changes in the product and geographical distribution of import trade could also have significant implications for developing countries by reflecting shifts in the degree of complementarity between the indigenous and international economy, and the vulnerability that such interdependence could entail in response to changes in external economic and political conditions. Some encouraging trends emerge with respect to diversification of

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50/ The degree of dispersion of the annual variations around the average narrowed down appreciably since the start of the present decade.

both export and import trade in several countries of the region, but on the whole there is still a long way to go particularly to change the traditional pattern of over reliance on the export of a few primary commodities and the almost complete dependence on imports for the supply of basic equipment.

The striking feature of the export trade of the oil economies is its extreme dependence on fuels (SITC 3), and the very little that has been achieved so far by way of export diversification (see table 19). Moreover, while fuel exports consist entirely of processed and semi-processed oil products in Bahrain and contain a significant component in this form in both Kuwait and Saudi Arabia (comprising about 10 per cent of the volume of crude oil produced in 1971-1972), Qatar and the United Arab Emirates continue to export their entire output of oil in primary form and Iraq exports only small quantities of refined products.

Manufactured goods (SITC 5-8) are of some significance in the export trade of Bahrain, Iraq and Kuwait accounting, during the period 1971-1973, for about 80 and 20 per cent of total non-oil exports of Bahrain and Iraq, respectively, and to 70 per cent of Kuwait's non-oil exports by the end of the last decade. These ratios, however, drop to 1.1 per cent for Iraq and 2.9 per cent for Kuwait when based on total exports including oil. While re-exports explain, to a large degree, the high and growing importance of manufactured goods in the non-oil export trade of Bahrain and Kuwait, it is worth noting that recent trends have been strongly influenced by the start of production and exports in Bahrain's aluminium smelter, and by the expansion in the output and exports of chemical fertilizers in Kuwait.

The export structures of the non-oil economies reveal considerably more heterogeneity among and within themselves, compared with the oil economies. With the exception of Lebanon,[51] primary commodities

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51/ The apparent high dependence of Democratic Yemen on exports of primary commodities reflects the inclusion of refined products in this category.

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still account for more than three-quarters of total exports, reaching about 98 per cent in the case of Yemen. In this respect, Lebanon represents a unique case in the region where its exports of manufactured goods have by far surpassed primary commodities, rising from less than two-fifths in 1961-1963 to over two-thirds in the first two years of the Second Development Decade. A notable increase in the share of manufactured goods has also occurred in Jordan, bringing it to 25 per cent of total exports in the years 1971-1973, compared with 5 and 13 per cent at the beginning and end of the last decade, respectively. In the Syrian Arab Republic, on the other hand, diversification in the direction of manufactures has been very slow, with this category representing only 14 per cent of all exports in 1971-1973. It is worth noting, however, the extent of diversification which has taken place within the category of primary commodities, where the emergence towards the end of the nineteen sixties of crude oil as an important export item and its growing importance has tended to reduce considerably the reliance of the Syrian Arab Republic on its traditional exports, notably cotton.

Two main obstacles have been hindering the process of export diversification in the direction of manufactured and semi-manufactured goods in the region. The first, and probably more effective obstacle, relates to the narrowness of the domestic production base and the inward-looking orientation that the development of manufacturing industry in the region has generally taken. The second obstacle, which in many respects is linked with the first, relates to problems of access to world markets, particularly those of the developed countries. While the failure in reaching these markets could, to a large extent, be attributed to the weakness of demand for the kind of manufactured goods produced within the region, as might be inferred from the fact that virtually all exports of domestically produced manufactures find their outlets within the region, there is no doubt that problems of access constitute an important obstacle to the expansion of such exports.

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Table 18. Index of regularity of change in the value of trade 1962-1973*

Country	1962-1970[a]		1971-1973[b]	
	Exports	Imports	Exports	Imports
Total trade	42	76	24	5
Oil economies	45	54	27	28
Iraq	146	410	101	65
Kuwait	49	90	42	48
Saudi Arabia	66	143	18	54
Non-oil economies	159	171	66	50
Democratic Yemen	-1237	-1293	-371	-338
Jordan	131	196	102	15
Lebanon	54	97	14	54
Syrian Arab Republic	215	190	85	37
Yemen	...	...	94	66

Source : United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

* For the method used in calculating the regularity index, see footnote 19, p. 16.

a/ 1963-70 for Saudi Arabia.

Table 19. Exports by major commodity classes*, selected periods
(Average percentage shares in total exports)

Country	Primary commodities (SITC 0 - 4)									Manufactured goods (SITC 5 - 8)		
	Total			Food and beverages (SITC 0 + 1)			Fuels (SITC 3)					
	1961-63	1968-70	1971-73	1961-63	1968-70	1971-73	1961-63	1968-70	1971-73	1961-63	1968-70	1971-73
Oil economies												
Bahrain a/	...	21.2	21.7	...	20.1	20.4	...	...	...	...	63.5	78.0
Iraq	99.5	98.8	98.9	4.3	2.8	2.4	93.9	94.3	95.4	0.5	1.2	1.1
Kuwait	98.8	97.0	95.9	1.1	1.0	0.9	95.5	97.5	94.9	1.1	2.9	4.0
Oman a/	...	100.0	100.0	...	100.0	100.0	...	...	...	—	—	—
Saudi Arabia	99.8	99.9	...	0.1	0.1	...	99.7	99.8	...	0.1	0.1	...
Non-oil economies												
Democratic Yemen c/	86.0	93.2	...	13.9	6.1	...	64.4	79.6	...	9.6	7.3	...
Jordan	94.2	88.6	74.5	53.0	51.9	41.9	0.2	0.4	0.6	4.9	12.7	25.3
Lebanon	61.9	40.5	31.8 b/	46.2	31.9	24.8 b/	0.4	0.2	0.3 b/	38.0	59.5	68.2 b/
Syrian Arab Rep.	88.4	87.9	85.8	30.1	30.6	19.2	0.8	10.9	21.1	11.6	11.5	14.2
Yemen	...	99.7 d/	98.0	...	63.6 d/	32.4	...	—	—	...	0.2 d/	1.0

Source : United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

* "Domestic" exports for Iraq, Jordan and Oman; "Special" exports for Bahrain, Saudi Arabia, Lebanon, Syrian Arab Republic and Yemen; and "general" exports for Kuwait and Democratic Yemen.

a/ Excluding trade in oil and oil products.
b/ 1971-72 average.
c/ Excluding ships bunkerage.
d/ 1969-70 average.

International action to facilitate the export of manufactured and semi-manufactured goods from developing countries to the markets of developed countries culminated in the introduction of the Generalized System of Preferences (GSP). The GSP, however, turned out to be of only marginal benefit to countries in the ECWA region in view of the restrictions the donor countries have imposed on their readiness to import certain products (e.g. textiles), the relatively unimportant position of manufactured goods in the export structure of the region, and the existing geographical pattern of exports whereby very little of the exported manufactures finds its way to markets outside the region. However, developing countries, including those in the region, will have the opportunity to take part in the forthcoming multilateral trade negotiations which will cover trade in both primary commodities and manufactured goods and will deal with non-tariff barriers 52/. A regional project has been established 53/ to assist members countries of ECWA in their preparation for, and participation in, these negotiations which should prove helpful for these countries in their export diversification efforts.

Turning to imports, manufactured goods are found generally to account for a larger proportion of total imports in the oil economies compared with the non-oil economies of the region (see table 20). At the same time, imports of primary commodities to the first group of countries mostly consist of food products, reflecting a high degree of dependence on external food supplies, self sufficiency with respect to fuels and a relatively low demand for the imports of raw materials - in turn a reflection of the stage of industrialization attained by these countries. The relatively less pronounced

52/ In contrast with the GSP which deals only with tariffs affecting trade in manufactures.

53/ The project is financed by UNDP and will be executed by UNCTAD in collaboration with ECWA

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importance of manufactured goods in the import trade of the non-oil economies is generally associated with a more even distribution of primary commodities imports among food products (SITC 0 + 1), fuels (SITC 3) and raw materials (SITC 2 + 4).

With some exceptions, no definite trends can be discerned regarding changes in the structure of imports of countries in the region. Available information shows that imports of manufactured goods have gained in relative importance over the preceding decade in each of Iraq, Kuwait, Jordan, Lebanon and Saudi Arabia, but that in none of these countries did the gain exceed 6 percentage points. However, significant increases in food imports in the early part of the nineteen seventies have offset earlier developments in Iraq and have induced a rise in the share of primary commodities in the total imports of Democratic Yemen and the Syrian Arab Republic. In contrast, the share of manufactured goods in Lebanese imports recorded a further rise of 5 percentage points. These movements have been associated with an improvement in the relative share of imports of machinery and equipment (SITC 7) only in Lebanon (2.5 percentage points) and Yemen (8 percentage points).

As for the geographical distribution of the export trade, it is evident that the ECWA region provides only a marginal outlet for the oil economies, reflecting the overwhelming importance of oil - all of which is virtually consumed outside the region - in their export trade. In contrast, the region remains a major market for the exports of the non-oil economies as a group. Intra-regional trade, however, will be discussed in more detail in section "C" below.

As an export outlet, the EEC 54/ is of special importance for the oil economies of the region, absorbing over one-half of their exports. The EEC also provides an important market for the products of the non-oil economies, with the exception of Jordan, taking on

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54/ Reference is to the enlarged EEC which comprises Belguim, Denemark, France, Germany (Fed. Rep. of), Ireland, Italy, Luxembourge, Netherlands and the United Kingdom.

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the average more than one-fifth of the combined value of their exports. This overall picture has changed only little in recent years. At the country level, significant increases have occurred between 1970 and 1973 in the share of exports going to the EEC countries from Saudi Arabia (from 39 to 51 per cent), the United Arab Emirates (from 22 to 54 per cent), Lebanon (from 10 to 24 per cent), while declines were recorded in the case of Kuwait (from 61 to 57 per cent), Oman (from 73 to 45 per cent), Democratic Yemen (from 28 to 15 per cent), and the Syrian Arab Republic (from 31 to 25 per cent).

The North American market[55/], which has lost considerably in importance in the latter part of the nineteen sixties as an outlet for the oil economies of the region, recovered its position and took, by 1973, close to 6 per cent of these countries' exports. This market also increased its share in exports of the non-oil economies, which is of significance only for Democratic Yemen and Lebanon, from 1.8 per cent in 1970 to 5.6 per cent in 1973.

Japan maintained its position as an important market for the oil economies of the region by absorbing 15-17 per cent of their combined exports. On the other hand, only 1.9 per cent of exports from the non-oil economies found its way to this market in 1973, compared with 6.3 per cent in 1970. This deterioration reflected a going back to earlier positions in the case of Democratic Yemen and the Syrian Arab Republic, and notwithstanding higher export shares from Jordan (3.7 per cent) and Yemen (22 per cent).

The three countries in the region with significant exports to the CMEA[56/] countries are Lebanon, the Syrian Arab Republic and Yemen, which in 1973 sent to this market about 4, 23 and 6 per cent, respectively, of their exports, compared with 5, 19 and 32 per cent in 1970.

55/ Consisting of Canada and the United States.

56/ Comprising Albania, Bulgaria, Cuba, Czechoslovakia, Germany (Dem. Rep.), Hungary, North Korea, Poland, Roumania and the USSR.

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Finally, it is worth noting that China has been an important market for Syrian products, absorbing in recent years 7-8 per cent of total exports from the Syrian Arab Republic. This market also took, in 1973, some 16 per cent of the exports of Yemen and 4 per cent of those of Democratic Yemen.

Some significant shifts have occurred since the beginning of this decade in the relative positions of the region's major suppliers of imports. The ECWA region lost in importance with its share in overall imports falling from 14.4 per cent in 1970 to 6.7 per cent in 1973. The CMEA countries also lost considerable ground with a decline in their share from 8.4 to 5.7 per cent over the same period. The main beneficiaries were North America and Japan which supplied 15 and 13.5 per cent, respectively, of all imports into the region in 1973 as compared with 11.3 and 8.3 per cent in 1970.

The EEC is the leading supplier of imports for all the countries in the region, having provided on the average around 35 per cent of total imports of the oil economies in 1973, and 39 per cent of total imports of the non-oil economies (compared with 36 and 31 per cent in 1970, respectively). Concentration on the EEC, however, is more marked in Lebanon, the Syrian Arab Republic, Bahrain, Oman, Qatar and the United Arab Emirates than it is in the rest of the region.

The increased importance of North America as a supplier of imports to the region reflects mainly the expansion in supplies to Saudi Arabia and Bahrain. On the other hand, the expansion in imports from Japan was concentrated in the oil economies with share increases between 1970 and 1973 ranging from about 3 percentage points in Kuwait to 13 points in Saudi Arabia. At the same time, Japan's share in imports of the non-oil economies, as a group, decreased slightly.

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Table 20. Imports by major commodity classes, selected periods
(average percentage shares in total imports)

	Primary commodities (SITC 0 - 4)						Manufactured goods (SITC 5 - 8)					
	Total			Food and beverages (SITC 0 + 1)			Total			Machinery and transport equipment (SITC 7)		
	1961-63	1968-70	1971-73	1961-63	1968-70	1971-73	1961-63	1968-70	1971-73	1961-63	1968-70	1971-73
Oil economies												
Bahrain [a]	...	23.4	19.4	...	21.5	17.2	...	72.6	80.5	...	29.3	30.0
Iraq	27.5	22.9	28.4	20.7	16.3	21.7	72.5	77.0	71.5	27.8	30.7	31.2
Kuwait	24.8	21.6	22.9	21.1	18.7	19.9	74.2	78.3	76.5	31.4	35.6	33.5
Oman	...	...	37.5	...	...	30.5	...	...	62.1	...	...	26.7 [b]
Qatar	...	...	22.0 [b]	...	...	19.4 [b]	...	...	78.0 [b]	...	...	47.2 [b]
Saudi Arabia	37.1	33.8	...	32.7	29.6	26.8 [b]	57.6	66.1	69.7 [b]	23.9	33.2	33.6 [b]
Non-oil economies												
Democratic Yemen	63.3	62.8	70.3	13.4	20.7	28.6	26.0	37.1	29.6	7.3	5.7	7.1
Jordan	42.2	39.3	38.2	30.6	29.1	29.2	49.7	53.1	48.0	15.7	18.2	17.5
Lebanon	44.9	39.3	34.7 [b]	25.6	23.2	19.3 [b]	55.0	60.7	65.3 [b]	19.4	20.1	22.7 [b]
Syrian Arab Rep.	36.8	36.9	38.7	20.5	21.0	27.5	63.1	62.9	61.1	19.5	21.2	21.6
Yemen	...	62.4 [c]	55.5	...	54.3 [c]	49.6	...	21.5 [c]	43.7	...	4.8 [c]	12.7

Source : United Nations Economic Commission for Western Asia, based on data compiled from national and international sources.

a/ Non-oil imports only.
b/ 1971-72.
c/ 1969-70.

The CMEA countries are major suppliers of imports to Iraq and the Syrian Arab Republic, having provided 20.8 and 17.8 per cent of these countries respective imports in 1973, compared with 21.8 and 23.6 per cent in 1970. The CMEA countries also have been providing significant but much lower portions of imports to other countries of the region including Democratic Yemen, Jordan and Lebanon[57/].

Imports from China are of some importance in the case of the Syrian Arab Republic, Iraq, Kuwait, Democratic Yemen, and Jordan, accounting for 4, 3.6, 3.0, 3.2 and 1.9 per cent of total imports in 1973, respectively.

C. Intra-regional trade

On the whole, intra-trade occupies a very modest place in the trade of the region (see table 21). By the end of the nineteen sixties, less than 7 per cent of member countries' exports was marketed within the region, representing only a marginal improvement over the position in the beginning of the decade. This share fell to 4 per cent during the period 1971-1973 on account of the relatively more rapid expansion in the export of oil-producing countries, as well as, of Jordan, Lebanon and the Syrian Arab Republic to outside the region. Similarly, imports from within the region lost substantial ground in the first three years of the present decade, dropping to less than 10 per cent of the total. In particular, Bahrain, Lebanon, Saudi Arabia and Yemen seem to have reduced their relative dependence on regional supplies.

The Region, however, continues to be of prime importance for the export trade of the non-oil economies, absorbing during 1971-1973 some 51 per cent of Jordan's exports, 44 per cent of

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57/ Imports from the CMEA countries declined between 1970 and 1973 from 9.9 to 4.8 per cent in Jordan, from 10.3 to 6.2 per cent in Lebanon, but increased from 2.8 to 6.6 per cent in Democratic Yemen.

Table 21. Evolution of intra-regional trade, 1962 - 1973

Country	Percentage shares						Average annual variations (per cent)			
	Exports			Imports			Exports		Imports	
	1962-64	1968-70	1971-73	1962-64	1968-70	1971-73	1962-70	1970-73	1962-70	1970-73
Bahrain	1.9	6.9	3.6	1.8	50.9	34.4	29.0	-70.0	119.3	-80.0
Democratic Yemen	12.5	7.4	15.6	30.5	24.0	24.1	-14.3	14.3	-7.9	-33.0
Iraq	4.5	6.7	4.4	4.0	5.3	4.0	14.2	-14.7	9.4	7.6
Jordan	68.3	57.1	51.0	16.4	20.5	18.4	11.1	13.9	7.2	24.0
Kuwait	2.6	2.2	1.1	5.3	7.5	8.3	1.2	-33.0	19.1	20.0
Lebanon	49.9	54.1	43.6	21.5	14.8	8.4	17.9	37.0	-2.4	17.7
Oman	18.1	0.2	0.1	4.4	1.4	0.1	18.9	-14.2	-17.6	-60.0
Qatar	7.7	0.9	1.7	3.2	3.2	7.0	-28.2	50.0	11.6	100.0
Saudi Arabia	2.4	6.2	2.3	6.9	17.4	7.5	31.9	-35.0	30.1	-5.0
Syrian Arab Republic	29.2	28.4	18.2	13.1	13.2	13.3	0.3	11.3	7.5	12.8
United Arab Emirates	11.3	3.2	0.2	1.2	0.8	1.9	6.0	-65.0	23.3	24.0
Yemen	46.2	53.7	30.9	89.9	31.6	19.5	-1.3	13.7	-7.6	39.0
All countries	6.0	6.8	4.0	13.3	14.7	9.5	10.7	-0.1	10.2	-1.6

Source : United Nations Economic Commission for Western Asia, based on data compiled from international sources.

those of Lebanon, and 31, 18 and 16 per cent of exports of Yemen, the Syrian Arab Republic and Democratic Yemen, respectively. The region also provides the main outlet for the exports of manufactured and semi-manufactured goods from member countries.

Within the overall picture, it is worth noting the relatively low significance of intra-trade flows for countries which are members of regional groupings and/or intergovernmental bodies, the objective of which is to promote regional trade and integration (see table 22). Thus, in the initial years of the Second Development Decade, intra-trade, on the average, represented about 3 and 4 per cent of export and import trade, respectively, in the four member countries of the Arab Common Market (ACM)58/, and 3 and 5 per cent of the corresponding flows in the case of the seven member countries of the Council of Arab Economic Unity (CAEU). Moreover, as a comparison of tables 21 and 22 reveals, Iraq, Jordan and the Syrian Arab Republic are by far more dependent on other countries in the region for marketing their exports than on their common market partners. With respect to imports, however, both Iraq and Jordan are about equally dependent on their common market partners as on other countries of the region, whereas the Syrian Arab Republic dependence on the former group is appreciably greater.

What is remarkable about the evolution of intra-regional trade, so far, is the fact that it has behind it more than twenty years of efforts and various forms of bilateral and multilateral preferential trading arrangements, and yet remains relatively of so little importance. Critical assessment of the disappointing performance of intra-regional trade reveals that the approach and

58/ A striking feature of trade among ACM countries, and for that matter of intra-regional trade flows in general, has been the extreme instability in the year-to-year values of bilateral trade flows in the wake of changing political relationships.

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techniques used, with their undue emphasis on trade liberalization measures and policies and neglect of other more or equally important factors, such as the narrowness of the production base and inter-country differences in socio-economic systems and levels of development, would have to be drastically modified. Consequently, appeals have been made in favour of radically new approaches. These visualize the expansion of trade as part of a wider process of regional co-operation and integration and call upon new forms of co-operation that are less ambitious in their objectives, at least in the short-run; more flexible in their operation to allow for the differences between the socio-economic systems as well as the levels of development of the various countries of the region; and, more selective in coverage, aiming only at the identification of selected areas where cooperation is seen to be mutually beneficial. But at the core of the change in approach and form lies the realization that the development of the productive structure and base, along complementary lines, is the essential prerequisite for the expansion of intra-regional trade. This awareness has reflected itself in a growing enthusiasm for co-operation in the field of production, more particularly, for the idea of joint ventures through the creation of multinational regional companies.

What is encouraging, however, is that this new line of thinking has been gathering momentum at a time when external circumstances are working to cement closer political relations between the countries of the region which could not fail to spill over into the economic field. At the same time, several countries of the region are accumulating surplus funds at unprececedented rates, and for which the region would provide a natural outlet. These developments have also coincided with the establishment of the first regional development bank, namely, the Arab Fund for Economic and Social Development as well as expanding and/or establishing national development finance institutions with a regional scope of operations.

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Table 22. Share of intra-trade in the trade of selected country groupings (in per cent)

	Exports			Imports		
	1962-64	1968-70	1971-73	1962-64	1968-70	1971-73
Arab Common Market (ACM)	2.6	4.0	3.1	2.8	4.7	3.8
Egypt	2.7	2.9	2.8	0.1	1.7	1.6
Iraq	0.7	3.0	2.0	2.6	4.0	2.2
Jordan	25.4	21.4	21.7	10.2	9.0	9.0
Syrian Arab Republic	8.4	11.0	7.2	8.8	9.4	8.1
Council of Arab Economic Unity (CAEU)	2.8	3.4	2.7	4.1	5.4	4.7
Egypt	5.3	5.1	4.7	3.4	3.4	3.5
Iraq	1.2	3.9	2.9	3.0	4.5	3.2
Jordan	39.6	35.6	32.1	7.6	9.3	9.7
Kuwait	1.3	0.2	0.4	1.6	4.2	3.2
Sudan	4.3	4.9	5.8	4.9	5.1	5.5
Syrian Arab Republic	9.5	14.5	8.5	9.2	9.6	8.5
Yemen	-	0.6	-	-	23.2	6.6

Source : United Nations Economic Commission for Western Asia, based on data compiled from international sources.

The sign (-) signifies nil or negligible.

D. Balance of payments and international liquidity situation

A country's external payments position is not determined solely by the relationship between its merchandise exports and imports. It is a function of the totality of foreign exchange receipts and the various claims against them, and the implications of all these transactions for reserves holdings. The balance of payments brings together all of a country's transactions with the rest of the world and shows the resulting movements in reserves. Its international liquidity position at any time shows the cumulative effect of movements in international reserves up to that point.

Major balance of payment flows, covering the period 1968-1973, for three oil economies (viz., Iraq, Kuwait and Saudi Arabia) and four non-oil economies (viz., Democratic Yemen, Jordan, Lebanon and the Syrian Arab Republic) are shown in table 23. A distinctive feature of the payments situation of the oil economies resides in the existence of a large and persistent trade surplus. This surplus is used, to a large extent, to meet payments for services rendered by foreign residents, mainly in the form of investment income payments to the international oil companies.59/ With the exception of Iraq, where the amounts involved are rather negligible, transfers abroad tend to reduce further the trade surplus. These transfers, while continuing to reflect heavy reliance on expatriate skills and labour, have assumed an increasingly important role since 1967 with the commitment of both Kuwait and Saudi Arabia to extend financial aid to Egypt and Jordan, and later on to the

59/ Kuwait differs in this respect from both Iraq and Saudi Arabia by the substantial amounts earned on foreign assets held by the Central Government, Kuwait Fund for Arab Economic Development (KFAED), Central Bank, commercial banks and private investors. These earnings help considerably to offset part of the country's large deficit incurred with respect to other transactions in the services account.

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Table 23. Major balance of payments flows, 1968-73

/in millions of Special Drawing Rights (SDRs)7*

	(1) Trade balance	(2) Services (net)	(3)=(1)+(2) Balance on goods and services	(4) Transfers (net)	(5)=(3)+(4) Balance on current account	(6) Capital flows (net)	(7) Changes in reserves (- = increase)	(8) SDRs Allocation	(9) Net errors & omissions
				A. Oil economies					
e)	606.0	-455.0	151.0	4.0	155.0	-13.0	-33.0	--	-109.0
	838.0	-650.0	188.0	2.0	190.0	-58.0	-91.0	12.0	-53.0
	587.0	-378.0	209.0	3.0	212.0	-34.0	-153.0	12.0	-37.0
e)	-581.2 b/	211.6 c/	571.4	-154.9 d/	416.5	-87.1	-135.1 e/	--	-194.4 g/
	-565.0 b/	269.6 c/	1183.2	-99.1 d/	1084.1	-105.6	-607.3 e/f/	--	-371.2 g/
	-597.[illegible] b/	318.0 c/	1256.6	-49.7	1206.9	-290.6	-517.5 e/f/	--	-398.7 g/
	-702.4 b/	409.2 c/	2743.5	-336.5	2407.0	-283.1	-607.9 e/	--	-1521.8 g/
e)	1053.0	-852.7	200.3	-236.0	-35.7	78.7	32.0	--	-75.0
	2632.0	-1452.0	1180.0	-275.0	905.0	-57.0	-794.0	--	-54.0
	3515.0	-1922.0	1593.0	-298.0	1295.0	-73.0	-1093.0	--	-129.0
	5870.0	-2959.0	2911.0	-646.0	2265.0	-914.0	-1431.0	--	80.0
				B. Non-oil economies					
ge)	-56.8	-7.5	-64.4	52.2	-12.1	7.4	-3.1	1.2	0.5
	-62.4	7.1	-55.3	44.7	-10.6	2.4	0.2	3.1	4.9
	-56.3	6.2	-50.1	25.0	-25.1	17.7	-2.8	3.1	7.1

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Table 23. Major balance of payments flows, 1968-73 (continued)
/in millions of Special Drawing Rights (SDRs)7

	(1) Trade balance	(2) Services (net)	(3)=(1)+(2) Balance on goods and services	(4) Transfers	(5)=(3)+(4) Balance on current account	(6) Capital flows (net)	(7) Changes in reserves (- = increase)	(8) SDRs Allocation	(9) Net errors & Omissions
) (average)	-139.2	-4.5	-143.7	132.9	-10.8	7.8	-2.1	0.9	-4.2
	-181.3	19.3	-162.0	102.5	-59.5	23.9	28.1	2.5	5.0
	-200.8	22.8	-178.0	176.1	-1.9	20.2	-16.1	2.4	-4.6
	-213.4	70.7	-142.7	164.8	22.1	15.7	-24.2	--	-13.6
) (average)	-329.4	284.0	-45.4	27.7	-17.7	21.4	-34.7	--	31.0
	-398.0	353.0	-45.0	29.0	-15.0	184.0 h/	-168.0	--	...
	-424.0	378.0	-46.0	31.0	-15.0	111.0 h/	-96.0	--	...
	-554.0	412.0	-142.0	41.0	-101.0	139.0 h/	-37.0	--	...
ab Republic									
) (average)	-152.7	89.0	-63.7	15.0	-48.7	21.7	18.0	2.0	7.0
	-215.0	128.0	-87.0	29.0	-58.0	121.0	-31.0	5.0	-37.0
	-168.0	117.0	-51.0	77.0	26.0	12.0	-3.0	5.0	-40.0

nited Nations Economic Commission for Western Asia, based on data compiled from national and international sources.
0, 1SDR = 0.888671 grammes of gold = 1 US dollar; In 1972 1 SDR = $ 1.08571; and in 1973 1 SDR = US $ 1.20635.
beginning 1 April of year stated.
l trade balance.
ing transactions of the oil sector.
nent transfers only.
s in reserves correspond to changes in central Government and Central Bank assets. The average increase in the Central
ment Assets for 1968-70 was SDR 123 million, and SDR 527 million for 1971, SDR 282 million for 1972 and SDR 405 million for 1973.
ing SDR 63 million for 1971 and SDR 160 million for 1972 representing loss on foreign assets held by the government, Central
nd Commercial banks due to the devaluation of the US dollar.
mostly private current transfers and private capital transactions.
es "Net errors and omissions".

Syrian Arab Republic. The net effect of these transactions, however, has generally been to leave a large surplus on current account[60/]. In the case of Saudi Arabia, the surplus has been mainly used to build up international reserves, though in 1973 net capital outflows, exceeding SDRs 0.9 billion, were recorded. Unrecorded capital outflows and transfers, as implied by the unproportionately large and negative magnitude of the balance of payments entry on "net errors and omissions", explain the changes in reserves and the manner in which Kuwait's surplus on current account was utilized in recent years. In Iraq the surplus, which is small by the standards of Kuwait and Saudi Arabia, has been increasingly used in adding to reserves, unlike the situation in the period 1968-1970 when it was largely offset by a negative "net errors and omissions" entry, believed to have been largely due to private capital outflows.

In contrast, the payments situation in the four non-oil economies, as shown in table 23, is characterized by the existence of a large and persistent trade deficit. This deficit is largely offset by earnings from services and transfers from abroad. The relatively small deficit generally left on the current account is usually more than covered by capital inflows, resulting in additions to international reserves. These additions have been quite substantial in the case of Lebanon.

An indicator of the strength or weakness of a country's payments position is provided by the relationship between the internationally accepted means of payments it commands and its payments needs. In a broad sense, the payment means will include the country's holdings of gold and foreign exchange, its reserve

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60/ Saudi Arabia, however, recorded a relatively small deficit on current account transactions in 1968 and 1969 which resulted in resorting to accumulated reserves.

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position in the International Monetary Fund and, as of 1970, allocations of Special Drawing Rights (SDRs); these means need also to reflect the net external debt position and take account of foreign assets in the possession of government and commercial banks. The needs will mainly include imports of goods and services, debt repayment and servicing, and investment income payments. But a common indicator used for this purpose relates the country's international reserves - defined to include holdings of gold and foreign exchange by the monetary authorities, the country's reserve position in the Fund and allocations of SDRs - to merchandise imports.

With the exception of the Syrian Arab Republic, the countries shown in table 24 and for which information is available, recorded substantial increases in their international reserves holdings over the last decade. Saudi Arabia, which accumulated the largest reserves among the countries reviewed, has succeeded in adding to these reserves in every year since 1960, with the exception of 1968 and 1969 when substantial losses were incurred. As a result, reserves have risen from an average of $ 231 million, in 1960-62, to $ 644 million, in 1968-1970. Since 1966 Iraq has made significant additions to its reserves which rose to an average of $ 464 million in 1968-1970, or more than twice their level at the beginning of the decade. Kuwait's reserves 61/ have shown a moderate increase over the last decade reaching $ 186 million in 1968-1970.

Beginning with 1971, reserves holdings have risen very sharply in all three major-oil-producing countries and attained, in 1973, the record level of $ 3.88 billion in Saudi Arabia, $ 1.55 billion in Iraq and $ 0.50 billion in Kuwait, 61/ or SDRs 3.21 billion, SDRs 1.29 billion and SDRs 0.42 billion, respectively.

61/ Including only Central Bank's assets. The bulk of the increase in reserves in Kuwait, however, goes to augment the Government's holdings of foreign assets rather than those of the monetary authorities proper.

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Table 24. International liquidity and reserves/imports ratios, 1960-1973

	International reserves[a/] (1) Millions of dollars	(2) Millions of SDRs	(3) Merchandise imports (millions of dollars)	4=(1):(3) Reserves/imports ratio
A. Oil economies				
Bahrain				
1968-70	68	68	241	0.28
1971	95	88	347	0.27
1972	97	89	331	0.29
Iraq				
1960-62	223	223	385	0.58
1968-70	464	464	451	1.03
1971	600	553	694	0.86
1972	782	720	713	1.10
1973	1,553	1,287	898	1.73
Kuwait				
1960-62	97	97	285	0.34
1968-70	186	186	627	0.30
1971	288	265	678	0.42
1972	363	335	797	0.46
1973	501	415	1,042	0.48
Oman				
1971	145	134	96	1.51
1972	164	151	160	1.02
1973	85	70	232	0.37
Saudi Arabia				
1960-62	231	231	241	0.96
1968-70	644	644	667	0.96
1971	1,444	1,330	806	1.79
1972	2,500	2,303	1,136	2.20
1973	3,877	3,214	1,993	1.94

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Table 24. International liquidity and reserves/imports ratios, 1960-1973 (continued)

	International reserves a/ (1) Millions of dollars	(2) Millions of SDRs	(3) Merchandise imports (Millions of dollars)	4=(1):(3) Reserves/imports ratio
B. Non-oil economies				
Democratic Yemen				
1968-70	58	58	207	0.28
1971	64	59	158	0.40
1972	67	62	149	0.45
1973	76	63	170	0.45
Jordan				
1960-62	52	52	122	0.43
1968-70	268	268	178	1.50
1971	253	233	215	1.18
1972	270	249	267	1.01
1973	312	259	335	0.93
Lebanon				
1960-62	168	168	313	0.54
1968-70	355	355	540	0.66
1971	547	504	677	0.81
1972	675	622	849	0.80
1973	862	714	1,387	0.62
Syrian Arab Republic				
1960-62	27	27	220	0.12
1968-70	60	60	343	0.17
1971	88	81	438	0.20
1972	135	124	477	0.28
1973	478	399	595	0.80
Yemen				
1969-70	78	78	34	2.29
1971	94	86	37	2.54
1972	110	101	80	1.38

Source: United Nations Economic Commission for Western Asia, based on data compiled from international sources.

a/ End of year data on gold and foreign exchange holdings by monetary authorities, reserve position with the Fund, plus Special Drawing Rights where applicable.

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The reserve position of both Jordan and Lebanon improved significantly over the 1960s despite a large and generally widening trade deficit. Additions to reserves in Jordan were only interrupted between 1969 and 1971 when a decline was noted. At the end of 1973, Jordan's reserves stood at $ 312 million (SDRs 259 million). The trend in Lebanon's reserves has been even more favourable, with additions recorded in every year, except 1967. The steady increase in reserves raised their level from $ 168 million, in 1960-1962, to $ 355 million, in 1968-1970; and further to $ 862 million (SDRs 714 million) in 1973. In contrast, Syria's reserve position has remained very weak throughout most of the period, both additions to and withdrawals from reserves being small and generally offsetting. However, the country's reserves improved sharply in 1973, reaching $ 478 million (SDRs 399 million). As for the two Yemens, their reserves holdings did not undergo significant changes in recent years.

Measured by the ratio of reserves to merchandise imports, the Syrian Arab Republic continued to have the least adequate reserve position among the countries reviewed during the last decade and the first two years of the present decade. The ratio of reserves to imports in 1968-1970 was still 0.17, i.e., sufficient to cover only about two months of imports at prevailing rates. The ratio, however, rose to 0.80 in 1973. Somewhat more adequate in relation to imports are the reserves of Kuwait.62/ The reserves/import ratio in this country declined somewhat during the second half of the last decade to 0.30 in 1968-1970, or the equivalent of about 3 months imports. Since then, the ratio has improved with the import coverage rising to about 6 months imports in 1973. In the remaining four larger countries (vis., Iraq, Jordan, Lebanon and Saudi Arabia), reserves have generally been quite adequate in relation to imports. In Saudi Arabia, the reserves/imports ratio increased from close to 1 in 1968-1970 to 2 in 1973, i.e.,

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62/ See footnote 61 above.

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equivalent of two years imports at prevailing rates. Despite a seemingly precarious payments position, Jordan has succeeded in raising its reserves/imports ratio from 0.42, at the beginning of the last decade, to 1.50 (18 months of imports) towards the end of the decade. However, the ratio has declined appreciably since then. Similarly, in Lebanon, the reserves/imports ratio has steadily risen from 0.54 to 0.66 in the course of the last decade. The upward trend, however, was interrupted in 1973. In Yemen, the high reserves/imports ratio is a reflection of the low value of imports, while in Democratic Yemen the apparently adequate ratio is explained by declining imports in recent years. Oman's satisfactory situation during the first two years of the present decade sharply deteriorated in 1973 with the reserves/imports ratio falling to 0.37.

SUMMARY AND CONCLUSIONS

This study has been prepared to meet the requirements of the mid-term review and appraisal of progress achieved towards fulfilling the goals and objectives of the Second United Nations Development Decade (DD2). The approach adopted combines elements from the review and appraisal exercise at the national, regional and sectoral levels. As a background to, and in order to provide baselines for, assessing progress in the ECWA region during the first half of DD2, considerable emphasis has been put in the paper on developments during the nineteen sixties.

Growth of production

Time-series of national accounts, which are basic to the measurement of economic growth, are available in a statistically acceptable form only in six out of the twelve countries of the ECWA region, namely, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic. Only for Iraq, Jordan and the Syrian Arab Republic do these series extend for a full decade. Besides being short on time coverage, these series are also deficient in reflecting output changes in real terms (at constant prices), as against changes in monetary terms (at current prices). These shortcomings not only tax the time and effort of the research worker, but also reduce the quality and scope of the analysis, thus demonstrating the need for the countries of the region to accord high priority to the improvement of the flow of statistical information.

The highest annual average growth rates in GNP in the past decade were realized in the United Arab Emirates (30 per cent) and Oman (19 per cent); countries which recently and very rapidly became important oil producers. Next in rank were some of the older oil producers, namely, Saudi Arabia (10.5 per cent), Qatar (9.6 per cent) and Kuwait (7.9 per cent). Growth rates in the remaining two oil-producing countries, namely, Bahrain and Iraq, were around 6.4 per cent per annum each. Of the non-oil countries, only Jordan achieved a

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rate of 6.6 per cent which is higher than the DD2 global target rate. Growth in the Syrian Arab Republic and Lebanon averaged around 5.9 and 4.7 per cent per annum, respectively. The rate of economic growth in Yemen was somewhere between zero and 3 per cent. Democratic Yemen suffered a negative average growth rate due mainly to the closure of the Suez Canal and to political disturbances.

It is believed that past growth rates of most countries in the region, even those which were relatively high, did not reflect their full development potential. While rapid expansion of oil production accounted, in many cases, for exceptionally good performance, a number of factors contributed to depress economic growth in several other countries under consideration.

Weather conditions remained a major unsettling factor affecting agricultural output in several countries of the region. The Middle East War of 1967 and its aftermath has been the most extraneous factor hampering economic development in the region. Recovery from the war effects became apparent in 1970 and 1971, not only in the oil-producing countries, where the adverse effects of the war were relatively of a passing nature, but also in other countries of the region, testifying to the resiliency of the economies in question.

In Iraq as well as in the Syrian Arab Republic, the last decade was a period of transition from one political and socio-economic system to another, as a result of which the public sector progressively increased its hold over the economy. The implementation of the agrarian reform laws of 1958 (Iraq) and 1959 (Syrian Arab Republic), and of the nationalization laws of 1964 (Syrian Arab Republic) and 1965 (Iraq), affecting key activities in industry and commerce, had some adverse effects contributing, in the first case, to poor performance in agriculture, and, in the second case, to a retardation of industrial growth. Growth was also hampered by a weak external position, necessitating the

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imposition of import restrictions in both countries. An important inhibiting factor, affecting the growth of the Iraqi economy during the past decade, is also to be found in the low rate of growth of the oil sector relative to the situation in neighbouring oil-producing countries, particularly after 1966.

Internal political strife, which sometimes took the form of civil war, as in the case of Iraq, Jordan and Yemen, was also responsible for depressing growth below its feasible potential.

In certain cases, inadequate planning and implementation of public projects tended to dissipate part of the limited resources available for development purposes. In other cases, notably in some of the oil-producing countries, as well as, the less developed countries of the region, growth was below potential on account of the relatively low absorptive capacity of these economies for productive investment, reflecting mainly institutional and manpower constraints.

Available information permits only a sketchy discussion of production growth in countries of the ECWA region since the inception of DD2. For Saudi Arabia, the Syrian Arab Republic and Jordan, the growth in real GNP averaged 14, 6.5 and less than 2 per cent per annum, respectively, in the first three years of the decade; over the same period, real growth in GNP of the United Arab Emirates probably attained the level of 30 per cent per annum, whereas GNP growth in Oman, valued in monetary terms, recorded an annual rate of growth of 16 per cent. Bahrain, Kuwait and Lebanon [redacted] experienced real growth rates in the period 1970-1972 estimated at 3 per cent in the first country and at about 10 per cent in the other two countries. On account of the sharp decline in Iraq's crude oil production during 1972, GNP growth in the first two years of DD2 did not average more than 6 per cent per annum.

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Most of the factors that were responsible for holding down growth in the region below potential during the 1960s continued to exert their influence into the present decade. Notable among these remains the Arab-Israeli conflict which culminated in another open confrontation in 1973, with particularly damaging consequences for the Syrian economy; the adverse effects of weather conditions on agricultural output in the non-oil economies; and civil disturbances in Lebanon, internal strife in Oman, opposing guerrillas and Government forces, and Iraq where fighting with the Kurds broke out again in 1974. In addition, the region has not been spared the consequences of the intensification of world inflation and the disturbances affecting the international monetary system. However, growth in the region during the first half of the 1970s has been particularly marked by developments in the oil sector, the implications of which extend beyond the region and the present decade. These developments, by shifting the balance of power from the international oil companies to the producing countries with respect to the setting of prices, and in the direction of increased government control over the exploration of oil resources and ancillary operations, have resulted in a sharp rise in the countries' take per barrel of crude oil produced and, consequently, in total oil revenues and incomes, which could not have been contemplated a few years back.

Available information indicates that, for most of the last decade, output expansion in the region has been associated, in varying degrees, with a reasonable degree of price stability. After 1968, however, an acceleration in the rate of price increase became apparent in several countries of the region. This has been reflected in the movement of consumer prices which had gained considerable momentum since 1973 in virtually all countries of the region.

While the growth rates of national product achieved in most countries of the region over the last decade were higher than the global average of developing countries, and indeed, higher than the global target for developing countries in DD2, the significance of

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these rates for economic welfare has been adversely affected by the relatively high rates of population growth in most countries of the region. With the exception of Saudi Arabia, the two Yemens, Lebanon and Oman, where annual average growth rates of population are estimated to have been in the neighbourhood of the rate recommended by the Strategy for DD2 (2.5 per cent), the remaining countries of the region are believed to have experienced significantly higher rates of population growth. With some exceptions (Oman, Saudi Arabia and the United Arab Emirates), rapid population growth during the 1960s has implied growth rates of per head national products that are lower than DD2 annual average target rate of 3.5 per cent. In the extreme case of Kuwait and Qatar, this resulted in a negative (-1.3 per cent) growth rate of per head national production of the former and in virtually no change in the per head product of the latter. Also the GNP per head of Democratic Yemen is estimated to have declined by 5 per cent per annum over the past decade, while that of Yemen hardly recorded any growth in the same period.

To put past growth trends in better perspective, however, the very wide disparities in levels of per head national product among the countries of the region should be noted. Moreover, it would appear that the initial years of the present decade have witnessed a further widening of the gap between the high and low per head income countries in the region.

Structural change

The basic difference in economic structure among the countries of the region is between the non-oil and oil-producing countries. This difference finds its main expression in the preponderance of commodity production in the former group of countries and services in the latter. The economic structure of the oil economies is dominated by crude oil production, the bulk of which is exported as such.

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Developments in the oil industry since the beginning of the current decade have been radically changing the nature of existing relations between the oil-producing countries in the region and the international oil companies, with the right to set oil prices reverting to the producing countries and with these countries gaining increasing control over the exploitation of their oil resources. Under the impact of these developments and a sharp rise in production, the contribution of crude oil production to total output in Saudi Arabia rose from an average of about 47 per cent in 1968-1970 to 68 per cent in 1973. Notwithstanding the lack of national accounts statistics, it is reasonable to assume that Qatar and the United Arab Emirates have also experienced similar developments. Available information shows a rise of 6 percentage points in the share of crude oil production in the GDP of Iraq, to 37 per cent, in 1971. With the sharp recovery in Iraq's crude oil production in 1973, following a 13 per cent decline in 1972 in the wake of the nationalization of the Iraq Petroleum Company (IPC), crude oil production could have gained further in relative importance. In Bahrain, Kuwait and Oman, under the influence of declining or slowly growing production, as well as more rapid developments in other sectors, the share of crude oil production in total output was only about 2 and 5 percentage points higher in Bahrain and Kuwait, respectively, in 1972 compared with the situation at the end of the last decade, whereas in Oman the corresponding share fell from 71 per cent to 58 per cent in 1972 and 55 per cent in 1973.

The fact that not only will oil be produced at more favourable terms during the balance of the present decade, but also that further expansion in world demand during that period may have to be met from countries in the region, notably Saudi Arabia, and to a lesser, nevertheless an important, extent from the United Arab Emirates and Iraq, could serve to accentuate the dependence of these countries on oil unless vigorous efforts to diversify the

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sources of output are undertaken. Invariably, however, all of the oil-producing countries will continue in the years to come to depend mainly on oil revenues to achieve their development and diversification objectives.

In the non-oil countries, with the exception of Lebanon, agriculture was still by far the most important of the commodity sectors by the end of the last decade. In Jordan and the Syrian Arab Republic, agriculture declined in importance by 3 to 4 percentage points over the last decade. In the oil economies reviewed, it is only in Iraq and Oman that agriculture makes a significant contribution to output. This contribution, however, seems to have remained virtually unchanged during the 1960s in Iraq, averaging around 17 per cent of the total, while declining in importance in Oman, following the discovery and exploitation of oil, to an average of only 15 per cent of total output in the period 1968-70. Since the start of the second development decade, agriculture has lost further in relative importance in several countries of the region.

Industrial production still occupies a modest place in all countries of the region. In Lebanon and the Syrian Arab Republic, for example, which enjoy the highest proportion of manufacturing and power output relative to GDP (with the exception of Bahrain and Democratic Yemen where, on account of petroleum refining, the share of manufacturing and power in GDP is around 52 per cent and 25 per cent, respectively), this proportion did not exceed 15 to 16 per cent by the end of the last decade. Iraq, Jordan and Saudi Arabia rank next, with close to 11 per cent of their GDP originating in manufacturing and power. The same activities accounted for about 7 per cent in Kuwait (including, as in Saudi Arabia, a significant contribution from oil refining), around 2 per cent in Yemen and were of negligible importance in Oman and the United Arab Emirates. Significant increases in the importance of industry (manufacturing

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and power) over the past decade relative to other sectors are apparent only in Jordan and Kuwait, where the relative position of industrial value-added improved by 3 to 4 percentage points. In both countries, rapid expansion has been achieved from an initially small industrial base. Information on the opening years of the current decade does not reveal any significant change in the relative importance of manufacturing and power except in the case of Bahrain and Saudi Arabia where declines amounting to 8 and 2 percentage points, respectively, can be noted by 1972.

Aside from Kuwait and Saudi Arabia, where oil refining dominates manufacturing activity, industrial production in the relatively more industrialized countries of the region consists largely of light manufacturing. This state of affairs does not seem to have undergone a marked change over the last decade. In recent years, however, several countries in the region have been giving increasing attention to more capital intensive and/or export-oriented industries notably in the field of petrochemicals and other energy intensive industries, fertilizers, steel and cement. With the notable exception of oil refining in Bahrain, Democratic Yemen, Kuwait and Saudi Arabia and, to a lesser degree, the manufacturing sector in Lebanon, industrial development in the region remained during the 1960s inwardlooking, addressing itself to domestic demand, with very little spill-over to external markets (mainly to countries in the region). Of the four relatively industrialized countries of the region, namely, Lebanon, Iraq, Jordan, and the Syrian Arab Republic, the first is the only country which exports a significant portion of its manufacturing output (around one-fifth of the total in 1970).

It is evident that there is an urgent need to diversify the structure of output in both oil and non-oil countries. In the former group, heavy dependence on crude oil carries with it an element of risk far greater than could be implied by a similar degree of dependence on another commodity, given the exhaustable character and the strategic importance of oil for the world economy. Similarly, while heavy reliance on services has not prevented Lebanon and Jordan from developing at high rates, and Lebanon from attaining a relatively high standard of living, the argument for diversification in the direction of production of material goods remains very strong. This is because the continued satisfactory performance of the services sector largely depends on external factors which are beyond the control of the two countries in question and which make their economies highly vulnerable to economic and political decision, taken abroad, mainly in neighbouring countries.

The overall pattern of expenditure on output differs substantially among the six countries of the region where the relevant information is available, namely, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and the Syrian Arab Republic. These differences are particularly pronounced between the oil and non-oil economies. Expenditure on consumption absorbs a significantly lower proportion of output in the oil economies, compared with the situation in the non-oil economies. By the end of the last decade, expenditure on consumption varied from 54 per cent of GNP in Kuwait, to 66 per cent and 78 per cent in Saudi Arabia and Iraq, respectively; the corresponding ratios were 103 per cent in Jordan and 86 per cent in each of Lebanon and the Syrian Arab Republic. Available information for the beginning years of the 1970s reflects significant decline in the consumption/GNP ratio in each of Kuwait, Saudi Arabia and the Syrian Arab Republic.

Private consumption remains considerably more important than public consumption in the non-oil economies, relative to the situation in the oil economies examined. The share of the public sector in total consumption has shown a marked tendency to increase in each of the Syrian Arab Republic, Kuwait and Jordan, with little change reported in the case of Iraq, Lebanon and Saudi Arabia.

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External demand generally assumes a much greater role, relative to internal demand, as a generator of income in the oil economies than it does in the non-oil economies. Little change has occurred in the relative importance of exports of goods and services in the countries reviewed over the second part of the last decade. However, information relating to the early part of the 1970s points to a strong upward tendency in the relative importance of exports of goods and services in many countries in the region, notably Saudi Arabia and Lebanon.

Capital formation

The appraisal of investment performance has been made with reference to gross fixed investment, and the investment/GNP ratio used since it relates the volume of investment to the total output of goods and services accruing to a country's citizens and available for allocation among the different end uses, including additions to the capital stock.

With the exception of the Syrian Arab Republic and Jordan, where the investment rate relative to the gross product rose by 3 and 1.5 percentage points, respectively, over the second half of the last decade, the remaining countries experienced either a decline or a stagnation in their investment rates over the same period. In Iraq, the investment rate fell from an average of 18.6 per cent in 1964-1966 to 16.7 per cent in 1968-1970. Similarly, in Lebanon it dropped from 21.6 per cent to 18.3 per cent during the same interval. In Kuwait, the investment rate fluctuated around 19 per cent. Significant changes in the investment rate since the beginning of this decade are reported for Oman, Jordan, Kuwait and Saudi Arabia. By 1973, the investment/GNP ratio has risen by some 20 percentage points, to 35 per cent, in Oman, and by 3 percentage points, to 18 per cent, in Jordan, compared with its average level in the period 1968-70. On the other hand, the investment rate dropped by about

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3.5 percentage points, to 16.5 per cent, during the first two years of the decade, in Saudi Arabia, and by 7 percentage points, to 11.7 per cent, in 1972 in Kuwait.

Investment expenditure by the public sector generally increased during the last decade at much higher rates than private investment, not only in the countries where the system gives the public sector a predominant role, namely, Iraq and the Syrian Arab Republic, but also, and by no means to a lesser extent, in private enterprise-oriented countries (Jordan, Kuwait, Lebanon and Saudi Arabia). A significant, though widely varying, increase in the proportion of total investment undertaken by the public sector and, correspondingly, a decrease in that of the private sector, occurred in these countries. Available information, however, reflects faster growth in private fixed investment outlays, relative to public investment expenditures in Saudi Arabia, Lebanon and the Syrian Arab Republic, since 1970.

A common factor underlying the shift in favour of public investment is to be found in the desire of the countries in question to provide the infrastructure necessary for accelerating their rate of economic and social development. In Iraq and the Syrian Arab Republic, however, the shift has been influenced, to a large extent, by determined Government effort to gain control over the economy and the means of production which culminated in the nationalization measures of the mid-sixties. These measures, together with political uncertainties, have had a depressing effect on private investment, causing it to decline in both countries.

The most dramatic increase in the relative importance of public investment occurred in the Syrian Arab Republic where the contribution of the public sector to total fixed investment rose from an average of about 38 per cent in 1963-1965 to 66 per cent in 1968-1970. The public sector's share, however, has fallen somewhat since the beginning of the current decade to around 60 per cent of

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the total in 1972-1973. The increase in the share of public investment was much less dramatic in Iraq, from 45 per cent of the total in 1960-1962 to 53 per cent in 1968-1970. In Jordan, public investment increased from an average of 32 per cent of fixed capital formation to 44 per cent over the past decade; a sharp dip in the relative importance of public investment in 1971 was made good during the two years which followed. In Saudi Arabia, the share of fixed investment attributed to the public sector, which has risen considerably over the past decade, declined by 6-7 percentage points in 1970-1972. A small increase has also been achieved in the share of public investment in Lebanon, bringing it to around 19 per cent of the total in 1968-1970. This trend, however, was reversed and by 1972 the relative share of the public sector was only 14 per cent of total investment. In Kuwait, the relative importance of public investment, compared to that undertaken in the private and semi-private (mixed) sector rose from 40 to 50 per cent between 1965 and 1970 and further to 59 per cent in 1972.

Information on the sectoral distribution of fixed capital formation is available only for Iraq and the Syrian Arab Republic. This shows that in Iraq the share of agriculture in total investment, which tended to decline in the first half of the last decade, amounted to 15 per cent in 1971, as compared with 10 per cent in 1960-1962. Investment in mining and quarrying, mostly in the oil sector, which accounted for about 13 per cent of total fixed investment in the early sixties, declined to 2 per cent by the end of the decade, but rose again to 5 per cent in 1971. Similarly, the share of investment in transport, storage and communication fell from 23 to 13 per cent in the same period. In marked contrast, the share of the manufacturing sector increased from 12 to 25 per cent over the decade, reflecting a combination of a rapid growth in this sector and a retarded rate in most of the other branches; in 1971, it constituted 21 per cent of the total.

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In the Syrian Arab Republic, investment in agriculture declined slightly from about 17 per cent in 1963-1965 to 16 per cent in 1968-1970, but recovered in the subsequent three years to account for 21-22 per cent of the total. On the other hand, the combined share of investment in manufacturing, mining and quarrying and basic utilities showed a significant improvement, rising from an average of 22 per cent in 1963-1965 to close to 27 per cent in 1968-1970; investments attributed to these sectors have continued to rise sharply, reaching 40 per cent of all fixed investment outlays in 1972.

Distinguishing fixed investment by broad types of assets acquired, it appears that, in the five countries for which available statistical series permit such a distinction, namely, Iraq, Jordan, Lebanon, Saudi Arabia and the Syrian Arab Republic, investment allocations during the last decade have largely gone to construction, including residential and non-residential buildings and public works, as against investment in machinery and equipment. However, with the exception of Jordan, where the share of machinery and equipment in total fixed investment fell from 33 to 24 per cent over the decade, increases ranging from 13 percentage points in Iraq to 3 and 4 percentage points in the case of Lebanon and the Syrian Arab Republic respectively, were recorded in the share of machinery and equipment. On the whole, there seems to have been no significant departures from this pattern since the start of this decade.

Mobilization of financial resources and financing of gross domestic capital formation

An analysis of savings efforts in seven countries of the region, where the relevant statistics are available, shows that average savings rates of these countries differed widely, ranging from very high proportions of savings relative to GNP in the oil countries, to low proportions in the non-oil countries. Iraq,

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Kuwait, Oman and Saudi Arabia already realize savings rates that are higher than the DD2 target rate for developing countries, i.e. 20 per cent of the gross product, having saved, on the average, the equivalent of 21 per cent, 46 per cent, 62 per cent and 34 per cent of their respective gross national products in the last two to three years of the preceding decade. In contrast, the three non-oil countries considered have savings rates that are still way below the DD2 target, since these savings have not, on the average, exceeded 12 and 14 per cent in the case of the Syrian Arab Republic and Lebanon and were negative (-3 per cent) in the case of Jordan, during the same period. The savings rate rose further by 1972 in Saudi Arabia and Kuwait to 46 and 52 per cent of GNP, respectively. In contrast, in Oman the savings rate was more than halved by 1973, mainly under the impact of rising defence expenditures as well as recurrent outlays on education, health and housing. The steady rise in the Syrian Arab Republic's savings rate, to 16 per cent by 1973, and in that of Lebanon, to 15-16 per cent in the period 1971-1972, are also worth noting. Saudi Arabia and the Syrian Arab Republic have also realized since the beginning of DD2 increases in their savings rates that are substantially above the Decade's overall target of 0.5 per cent per annum in the savings/output ratio suggested for all developing countries.

The private sector has been by far the larger contributor to national savings in the six countries for which information is available, with the exception of Kuwait, in the period 1968-1970. In Jordan, the private sector contributed all the savings occurring in the economy, while the public sector was dissaving and heavily dependent on external aid. In the Syrian Arab Republic, Lebanon, Saudi Arabia, Iraq and Kuwait, the private sector accounted for 90 per cent, 74 per cent, 68 per cent, 64 per cent and 50 per cent of total savings generated in the economy, respectively. In Iraq and the Syrian Arab Republic, however, close to 50 and 60 per cent, respectively, of the savings generated in the private sector were

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used to finance capital formation, the rest being offset by a net outflow of private capital. In contrast, in Lebanon, the inflow of private capital financed about 30 per cent of private fixed capital formation in the period 1968-1970. The relative contribution of the private sector to total savings generated in the economy in the first two years of the present decade has remained highly stable in Lebanon, increased substantially in the Syrian Arab Republic, and has declined appreciably in Saudi Arabia.

In analyzing the relative contribution of internal and external sources of financing to gross domestic fixed capital formation in the countries under consideration, it is immediately evident that national savings exceed, by a substantial margin, capital formation in the oil economies and fall short of it in the non-oil economies. Thus, in Kuwait, Oman, Saudi Arabia and Iraq, savings exceeded capital formation by 150 per cent, 300 per cent, 70 per cent and 27 during 1968-1970 in the four countries, respectively. Whereas, in both Kuwait and Saudi Arabia, the surplus of savings over investment was associated with relatively rapid rates of growth in capital formation, in Iraq there was only a nominal expansion in investment in the period considered. With the exception of Oman, where the positive saving-investment gap narrowed rapidly between 1970 and 1972 and turned negative by 1973, these positions have been further accentuated since the start of the current decade. Moreover, the prospects of higher savings rates in the oil economies during the rest of the 1970s, resulting from higher oil revenues, can be expected to accentuate the positive savings-investment gap, notably in Kuwait, Saudi Arabia and the United Arab Emirates, and to bring to the forefront of development issues the need for finding new investment opportunities and improving the absorptive capacity of the economies concerned, and questions relating to the composition and geographic distribution of their foreign assets holdings.

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With respect to the non-oil economies, Jordan exhibits the highest degree of dependence on the inflow of external resources to finance capital formation. This country has been persistently experiencing a negative savings rate which have had to be covered by an inflow of resources from the outside world in order to meet the financial requirements of investment, as well as current government expenditures. In both Lebanon and the Syrian Arab Republic, national savings financed around 80 per cent of capital formation during 1968-1970; since then the savings/investment ratio has risen sharply in the latter.

Foreign trade and payments

Trade in the region, as a whole, has expanded very rapidly since the beginning of the nineteen seventies. Compared with an average annual rate of growth of 9 per cent over the last decade, the aggregate value of merchandise exports from the region rose by 37 per cent per annum in the period 1970-1973, while the rate of growth of imports accelerated from 6.3 to 21 per cent. Both, the oil and non-oil countries contributed to this rapid expansion of trade, with exports and imports of the former group of countries expanding by 38 and 18 per cent per annum, respectively, and of the latter by 20 and 25 per cent, between 1970 and 1973.

With the exception of the Democratic Yemen - where both exports and imports continued to decline - significant positive deviations from past trends were recorded in the rest of the region. Compared with the nineteen sixties, the average annual rate of expansion in exports, during the first three years of the present decade, accelerated in Iraq and Kuwait from less than 6 per cent in each to 28 and 32 per cent, respectively, in Saudi Arabia, from 12 to 33 per cent, in Jordan from 12 to 20 per cent, in Lebanon, from 19 to 36 per cent, in the Syrian Arab Republic, from about 4 to 19 per cent, and in Oman, from -11 to 23 per cent. The rise in imports of the non-oil economies, as well as of Iraq and Oman among the oil economies, should also be noted. However, with the possible exception of the small oil-producing countries, and Lebanon, the absolute level of imports per head remains low in the region. Given the expected continuation of high levels of export earnings, the pace of import expansion in the oil economies would seem to depend mainly on their

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capacity to absorb additional imports. The present low level of imports per head in several of these countries is indicative in this respect.

Attaining the overall growth target of at least 6 per cent per annum in the gross product of developing countries as a whole during the Second Development Decade implies, inter alia, an average annual expansion of somewhat less than 7 per cent in their imports and somewhat more than 7 per cent in exports. Indications are that, for the region as a whole, these targets were exceeded by a significant margin in the first three years of the Decade. The fast growth in exports from the region, recorded during this period, was the result of the association of high prices coupled with increased quantities. Average export prices, which remained virtually unchanged during the nineteen sixties, rose by 17-18 per cent per annum. These price gains, however, seem to have been concentrated mainly in the oil economies. Notwithstanding the rise in international prices and its adverse effects on the purchasing power of exports proceeds, the rise in the volume of imports into the region was quite substantial between 1970 and 1973.

The rise in the level of exports from the oil economies, during the first three years of the current decade, should be viewed mainly against the sharp increase in crude oil prices since February 1971, following a decade of almost complete price stagnation. Higher prices were associated with rapidly increasing production in Iraq - despite a 13 per cent reduction in 1972, Qatar, Saudi Arabia and the United Arab Emirates, and with declining or slowly growing production in the remaining oil-producing countries. Variations in the level of agricultural output continued to be a major factor influencing the volume of trade in the non-oil economies, as well as the level of non-oil trade in Iraq. In Lebanon, however, expansion in exports has been enhanced by a rapid growth recorded in the exports of industrial products, whereas in the Syrian Arab Republic the record agricultural harvest of 1972 and the continued fast rise in the value of fuel exports accounted for the satisfactory performance of exports. This rapid expansion in exports has been allowed to be reflected in increased imports in both Iraq and the Syrian Arab Republic, where the import trade is under the control of the public sector. Trade between Lebanon and Jordan has been adversely affected by the intermittent closure of the Syrian-Lebanese border and further suffered, along with the trade of the Syrian Arab Republic, from the subsequent disruption caused by the War with Israel in October 1973.

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In the Democratic Yemen, the reduced level of operations in the oil refinery - where the bulk of the country's exports originate, is accountable for the decline in exports earnings.

Recent developments in the export and import trade of countries in the region have reinforced the positive trade balances in the oil economies, and accentuated trade deficits in the non-oil economies. As a result, the combined surplus of the oil economies rose from an average of about $4 billion in 1968-1970, to $10.1 billion in the period 1971-1973, while the overall trade deficit of the non-oil economies expanded from $0.75 to $1.19 billion. The substantially fast growth in merchandise exports, relative to imports, reflecting a rise in the ratio of exports to imports in the oil economies from an average of 2.9 in the period 1968-1970, to 4.1 in 1971-1973, has been largely due to the impressive increases recorded in the export/import ratios of Saudi Arabia, Kuwait and the United Arab Emirates. On the whole, the relationship between exports and imports in the non-oil economies has changed only slightly in recent years, with the export/import ratio averaging 0.4 in the period 1971-1973.

Although some encouraging trends are discernable with respect to the diversification of both export and import trade in several countries of the region, there is still a long way to go in order to change the traditional pattern of over reliance on the export of a few primary commodities and the almost complete dependence on imports for the supply of basic equipment.

A striking feature of the export trade of the oil economies is its extreme dependence on fuels, and the very little that has been achieved so far by way of export diversification. Moreover, while fuel exports consist entirely of processed and semi-processed products in Bahrain and to a smaller extent in Kuwait and Saudi Arabia, they constitute crude oil in the case of Oman, Qatar and United Arab Emirates. Iraq exports only small quantities of refined oil products. Manufactured goods are of some significance in the export trade of Bahrain, Iraq and Kuwait accounting for about 80 and 20 per cent of total non-oil exports of the first two countries, respectively, during the period 1971-1973, and for 70 per cent of the non-oil exports of Kuwait by the end of the last decade. These ratios, however, drop to 1.1 per cent for Iraq and to 2.9 per cent for Kuwait when based on total exports, including oil.

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The export structures of the non-oil economies reveal considerably more heterogeneity among and within themselves, compared with the oil economies. With the exception of Lebanon, primary commodities still account for more than three-quarters of total exports. Lebanon represents a unique case in the region where its exports of manufactured goods have by far surpassed primary commodities, rising from less than two-fifths in 1961-1963 to over two-thirds in the first two years of the Second Development Decade. A notable increase in the share of manufactured goods has also occurred in Jordan, bringing it to 25 per cent of total exports during the period 1971-1973, compared with 5 and 13 per cent at the beginning and end of the last decade, respectively. In the Syrian Arab Republic, on the other hand, diversification in the direction of manufactures has been very slow, but within the category of primary commodities the emergence, towards the end of the nineteen sixties, of crude oil as an important export item has tended to considerably reduce the country's reliance on its traditional exports.

Two main obstacles have been hindering the process of export diversification in the direction of manufactured and semi-manufactured goods in the region. The first, and probably more effective obstacle, relates to the narrowness of the domestic production base and the inward-looking orientation that the development of manufacturing industry in the region has generally taken. The second obstacle, which in many respects is linked with the first, relates to problems of access to world markets, particularly those of the developed countries. International action to facilitate the export of manufactured and semi-manufactured goods from the developing countries to the markets of developed countries culminated in the introduction of the Generalized System of Preferences (GSP). The GSP, however, turned out to be of only marginal benefit to countries in the ECWA region in view of the restrictions the donor countries have imposed on their readiness to import certain products of export interest to the region, the relatively unimportant position which manufactured goods generally occupy in their exports, and the existing geographical pattern of exports where very little of exported manufactures find their way to markets outside the region. However, developing countries, including those in the region, will have the oppotunity to take part in the forthcoming multilateral trade negotiations which will cover trade in both primary commodities and manufactured goods and will deal with non-tariff as well as tariff barriers.

Turning to imports, manufactured goods are found generally to account for a larger proportion of total imports in the oil economies compared with the non-oil economies. At the same time, imports of primary commodities to the first group of countries mostly consist of food products, reflecting a high degree of dependence on external food supplies, self-sufficiency with respect to fuels and a relatively low demand for the imports of raw materials - in turn a reflection of the stage of industrialization attained by these countries.

With some exceptions, no definite trends can be discerned regarding changes in the structure of imports of countries in the region. Available information shows that imports of manufactured goods have gained in relative importance over the preceding decade in each of Iraq, Kuwait, Jordan, Lebanon and Saudi Arabia, but that in none of these countries did the gain exceed 6 percentage points. However, significant increases in food imports in the early part of the nineteen seventies have offset earlier developments in Iraq and have induced a rise in the share of primary commodities in the total imports of Democratic Yemen and the Syrian Arab Republic. In contrast, the share of manufactured goods in the imports of Lebanon recorded a further rise of 5 percentage points. These movements have been associated with some improvement in the relative share of imports of machinery and equipment in Lebanon and Yemen.

As for the geographical distribution of the export trade, it is evident that the ECWA region provides only a marginal outlet for the oil economies, reflecting the overwhelming importance of oil - all of which is virtually consumed outside the region - in their export trade. In contrast, the region remains a major market for the exports of the non-oil economies as a group. As an export outlet, the enlarged EEC is of special importance for the oil economies of the region, absorbing over one-half of their exports. The EEC also provides an important market for the products of the non-oil economies, with the exception of Jordan, taking on the average more than one-fifth of their combined exports. This overall picture has changed only little in recent years.

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The North American market, which has lost considerably in importance in the latter part of the nineteen sixties as an outlet for the oil economies, recovered its position and took close to 6 per cent of these countries' export, by 1973. Japan maintained its position as an important market for the oil economies by absorbing 15-17 per cent of their combined exports. On the other hand, only 1.3 per cent of exports from the non-oil economies found its way to this market in 1973, compared with 6.3 per cent in 1970. The three countries in the region with significant exports to the CMEA countries are Lebanon, the Syrian Arab Republic and Yemen, which in 1973 sent to this market about 4, 23 and 6 per cent of their exports, respectively, compared with 5, 19 and 32 per cent in 1970. Finally, it is worth noting that China has been an important market for Syrian products, absorbing in recent years 7-8 per cent of total exports. This market also took, in 1973, some 16 per cent of exports of Yemen and 4 per cent of those of Democratic Yemen.

Some significant shifts have occurred since the beginning of this decade in the relative positions of the region's major suppliers of imports. The ECWA region lost in importance with its share in overall imports falling from 14.4 per cent in 1970 to 6.7 per cent in 1973. The CMEA countries also lost considerable ground with a decline in their share from 8.4 to 5.7 per cent over the same period. The main beneficiaries were North America and Japan which supplied 15 and 13.5 per cent, respectively, of all imports into the region in 1973, as compared with 11.3 and 8.3 per cent in 1970. The EEC continued to be the leading supplier of imports for all the countries in the region, having provided on the average around 35 per cent of total imports of the oil economies in 1973, and 39 per cent of total imports of the non-oil economies. Concentration on the EEC, however, is more marked in Lebanon, the Syrian Arab Republic, Bahrain, Oman, Qatar and the United Arab Emirates than it is in the rest of the region.

On the whole, intra-trade occupies a very modest place in the trade of the region. By the end of the nineteen sixties, less than 7 per cent of member countries' exports was marketed within the region, representing only a marginal improvement over the position in the beginning of the decade. This share fell to 4 per cent in the period 1971-1973. Similarly, imports from within the region lost substantial ground in the first three years of the

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present decade, dropping to less than 10 per cent of the total. In particular, Bahrain, Lebanon, Saudi Arabia and Yemen seem to have reduced their relative dependence on regional supplies. The region, however, continues to be of prime importance for the export trade of the non-oil economies, absorbing during 1971-1973 some 51 per cent of Jordan's exports, 44 per cent of those of Lebanon, and 31, 18 and 16 per cent of exports of Yemen, the Syrian Arab Republic and Democratic Yemen, respectively. The region also provides the main outlet for exports of manufactured and semi-manufactured goods from member countries.

Within the overall picture, it is worth noting the relatively low significance of intra-trade flows for countries which are members of regional groupings and/or intergovernmental bodies, the objective of which is the promotion of regional trade and integration. Thus, in the initial years of the Second Development Decade, intra-trade on the average, represented about 3 and 4 per cent of export and import trade, respectively, in the four member countries of the Arab Common Market, and 3 and 5 per cent of the corresponding flows in the case of the seven member countries of the Council of Arab Economic Unity (CAEU). Moreover, Iraq, Jordan and the Syrian Arab Republic are by far more dependent on other countries in the region for marketing their exports than on their common market partners.

What is remarkable about the evolution of intra-regional trade, so far, is the fact that it has behind it more than twenty years of efforts and various forms of bilateral and multilateral preferential trading arrangements, and yet remains relatively of so little importance. Critical assessment of the disappointing performance of intra-regional trade reveals that the approach and techniques used would have to be drastically modified. Consequently, appeals have been made in favour of radical and new approaches. These visualize the expansion of trade as part of a wider process of regional co-operation and integration and call upon new forms of co-operation that are less ambitious in their objectives, at least in the short run; more flexible in their operation to allow for the differences between the socio-economic systems as well as the levels of development of the various countries of the region; and, more selective in coverage, aiming only at the identification of selected areas where co-operation is seen to be mutually beneficial. But at the core of

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the change in approach and form lies the realization that the development of the productive structure and base, along complementary lines, is the essential prerequisite for the expansion of intra-regional trade. This awareness has reflected itself in a growing enthusiasm for co-operation in the field of production, more particularly, for the idea of joint ventures through the creation of multinational regional companies.

What is encouraging, however, is that this new line of thinking has been gathering momentum at a time when external circumstances are working to cement closer political relations between the countries of the region which could not fail to spill over into the economic field. At the same time, several countries of the region are accumulating surplus funds at unprecedented rates, and for which the region would provide a natural outlet. These developments have also coincided with the establishment of the first regional development bank, namely, the Arab Fund for Economic and Social Development as well as expanding and/or establishing national development finance institutions with a regional scope of operations.

A distinctive feature of the payments situation of the oil economies (Iraq, Kuwait and Saudi Arabia) reviewed resides in the existence of a large and persistent trade surplus. This surplus is used, to a large extent, to meet payments for services rendered by foreign residents, mainly in the form of investment income payments to the international oil companies. Kuwait differs in this respect from both Iraq and Saudi Arabia by the substantial amounts earned on foreign assets held by the Central Government, Kuwait Fund for Arab Economic Development (KFAED), Central Bank, commercial banks and private investors. These earnings have helped to offset part of the country's large deficit incurred with respect to other transactions in the services account. With the exception of Iraq - where the amounts involved are rather negligible - transfers abroad tend to reduce further the trade surplus. These transfers while continuing to reflect heavy reliance on expatriate skills and labour, have assumed an increasingly important role since 1967 with the commitment of both Kuwait and Saudi Arabia to extend financial aid to Egypt and Jordan, and later on to the Syrian Arab Republic. The net effect of these transactions, however, has generally been to leave a large surplus on current account. In the case of Saudi Arabia, the surplus has been mainly used to build up international reserves, though in 1973 net capital outflows exceeding SDRs 0.9 billion were recorded. Unrecorded capital outflows and transfers, as implied by the unproportionately large and negative magnitude of the balance of payments

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entry on "net errors and omissions", explain the changes in reserves and the manner in which Kuwait's surplus, on current account was utilized in recent years. In Iraq the surplus, which is small by the standards of Kuwait and Saudi Arabia, has been increasingly used in adding to reserves, unlike the situation in the period 1968 - 1970 when it was largely offset by a negative "net errors and omissions" entry, believed to have been largely due to private capital outflows.

In contrast, the payments situation in the four non-oil economies (Democratic Yemen, Jordan, Lebanon and the Syrian Arab Republic) considered is characterized by the existence of a large and persistent trade deficit. This deficit is largely offset by earnings from services and transfers from abroad. The relatively small deficit generally left on the current account is usually more than covered by capital inflows, resulting in additions to international reserves. These additions have been quite substantial in the case of Lebanon.

With the exception of the Syrian Arab Republic, the countries reviewed recorded substantial increases in their international reserves holdings over the last decade. Saudi Arabia has succeeded in adding to these reserves in every year since 1960, with the exception of 1968 and 1969 when substantial losses were incurred. Beginning with 1971, reserves holdings of the monetary authorities have risen very sharply in the major-oil-producing countries and attained, in 1973, the record level of $3.88 billion in Saudi Arabia, $1.55 billion in Iraq and $0.50 billion in Kuwait, or SDRs 3.21 billion, SDRs 1.29 billion and SDRs 0.42 billion, respectively.

The reserve position of both Jordan and Lebanon improved significantly over the 1960s despite a large and generally widening trade deficit. Additions to reserves in Jordan were only interrupted between 1969 and 1971 when a decline was noted. The trend in Lebanon's reserves has been even more favourable, with additions recorded in every year, except 1967. In contrast, Syria's reserve position has remained very weak throughout most of the period, both additions to and withdrawals from reserves being small and generally offsetting. However, the country's reserves improved sharply in 1973.

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Measured by the ratio of reserves to merchandise imports, the Syrian Arab Republic continued to have the least adequate reserve position among the countries reviewed during the last decade and the first two years of the present decade. The ratio of reserves to imports in 1968-1970 was still 0.17, i.e., sufficient to cover only about two months of imports at prevailing rates. The ratio, however, rose to 0.80 in 1973. In Iraq, Jordan, Lebanon and Saudi Arabia reserves have generally been quite adequate in relation to imports. In Saudi Arabia, the reserves/imports ratio increased from close to 1 in 1968-1970, to 2 in 1973. Despite a seemingly precarious payments position, Jordan has succeeded in raising its reserves/imports ratio from 0.42, at the beginning of the last decade, to 1.50 (18 months of imports) towards the end of the decade. However, the ratio has declined appreciably since then. Similarly, in Lebanon, the reserves/imports ratio has steadily risen from 0.54 to 0.66 in the course of the last decade. The upward trend, however, was interrupted in 1973. In Yemen, the high reserves/imports ratio is a reflection of the low value of imports, while in Democratic Yemen the apparently adequate ratio is explained by declining imports in recent years. Oman's satisfactory situation during the first two years of the present decade sharply deteriorated in 1973 with the reserves/imports ratio falling to 0.37.

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